

Challenge

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letters TO THE EDITOR

*Challenge invites your comments. Address letters to
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Correct and proper

•I have become a little annoyed of late at your consistent emphasis on booming, zooming and vigorous farm incomes. I operate a large poultry farm and can assure you that the situation is not so favorable. This applies not only to poultry, but to all types of agriculture.

If you take the correct and proper interpretations of agricultural income (not those handed out by Secretary of Agriculture Benson) you will see that farmers are falling farther and farther behind non-farm workers in net income. The relation of the American farmer's income to the nonfarmer's income puts the American farmer 'way down at the bottom of the list in an international comparison of this sort. Meanwhile, the prices of things the farmer must buy are, on the whole, rising faster than those products he has to sell. To quote a few figures, net farm income has dropped off about 20 per cent in the last five years, net income of individual farmers has dropped 101 dollars, while that of nonfarmers has risen almost 200 dollars, costs to farmers have risen about five per cent while prices have dropped almost 10 per cent in the same period.

If things were as good in the Farm Belt as Mr. Benson tells us they are, I don't think you would have seen the revolution we had on Election Day. The fact is that nobody has benefited from Mr. Benson's policies. Farmers' prices are lower, retail prices are higher, and the tax load is higher because of an enlarged department and an unsuccessful farm policy.

JEROME TAUB

Bound Brook, N. J.

Sound barrier

•Am I an island of myself? The statistics people are reporting high levels of unemployment—seven per cent—much too high for a country like ours at a time when everything should be going well. But what do we hear from the unemployed? I mean, I hear very little. Why don't the unemployed complain more? I know if I were so roughly cheated, I would be protesting a lot harder. Who can explain the mystery?

JOSEPH MORELLI

Boston, Mass.

Common sense

•I regret that CHALLENGE has joined the ranks of those modern economists who applaud the misuse of consumer credit as reasonable, re-

spectable and socially acceptable. ["Consumer Credit: Reasonable and Respectable," November, 1958].

Is it really common sense to amass a tremendous debt? And can this debt be rightfully called "savings"? Perhaps my economic vocabulary has not kept pace with the changing times but, to me, savings are not expenditures. Do you actually list payments on your new car, stereo set and trip to Europe as "savings," and do you count the remaining five dollars you deposit at the bank as an expenditure? Or do you even keep track of where your money goes?

NANCY HARROW

Chicago, Ill.

Due credit

•We were pleased to see in your November issue the article "Consumer Credit: Reasonable and Respectable" by Ervin Miller. It was a balanced presentation pointing out some of the pitfalls of misuse of consumer credit along with the advantages, and, of course, we thought this was particularly noteworthy.

WARREN P. LUTEY

Credit Union National Assn., Inc.
Madison, Wis.

Leisure?

•I got home late because the commuter train developed track trichosis or lost its way or something. I was growling hungry and what? Stove stone dead and of course no repairman. It's just as well, I could have eaten the repairman. I had cold cuts and spare parts, the latter for a couple of hours but the stove wasn't together with me on this thing. This is where the principles of modern management come in; I programmed my son into the operation and he fixed it. But leisure,

mon cher Monsieur Alpert? Why don't you go back to where you came from? Why don't you take us with you? Why don't you throw another log on the fire?

RICHARD WALEY

Westport, Conn.

And more leisure

•Your article "The Inefficiency of Leisure" [November, 1958] caught my attention. Mr. Alpert, a Frenchman, expressed the hopes of many of America's foreign visitors and residents when he looked toward a creative use of leisure that might lead to the development of more individual tastes. Few foreigners fail to notice an American tendency towards conformity. However, there are some signs that many are becoming bored with trying to enjoy what the "Joneses" enjoy. A few "individuals" may even, in time, move back to the city where they will benefit from an increased leisure time previously spent in commuting.

O. A. TORGENSEN

Washington, D. C.

Man and machine

•Did Mr. Steinhaus ["Portable Pension Plans," November, 1958] consider that perhaps some workers are becoming disenchanted with pension plans? While we are making our pensions "portable," why not give some thought to including provisions that will carry us through our retirement? The cost of living is rising but the machine that prints our monthly retirement checks is less versatile than the cash register; it seems to be stuck on the same figure.

ROBERT LEVINE

New York, N. Y.

a personal note



from the editor

Some thoughts on the morning after

■ THE HOOPLA which traditionally accompanies the arrival of a new year has been described variously by people of different temperaments as (1) an undirected form of blowing off steam; (2) a healthy expression of joy and happiness; and (3) a temporary escape from the realities of past and present. I am inclined to accept the third description as the one which best explains why most of us act the way we do on New Year's Eve. It is the only permissible occasion we have to seize that infinitesimally brief period between the departure of the old year and the coming of the new—that delicious hiatus when time and circumstance can be suspended long enough to be flavored with a dash of residual faith in a better future for all.

But there is always the morning after. And to this celebrant, at least, the task of seeking mundane ways to fortify faith seemed every bit as formidable after the suspenseful passage into 1959 as before. In short, the Moving Finger, having writ at midnight, has moved on, leaving it to each of us to take a hand in the matter of future possibilities. Fortunately, the morning after the night before has always provided a propitious occasion for making evaluations and drawing resolutions.

First waking thought: Where am I? Oh, yes, now I remember. I am an American. My country is presently engaged in a unique form of combat—sometimes called a cold war—with a communistic group of foes whose chief spokesman says we will eventually go under. The devil we will. They haven't figured on our capacity to fight fire with fire, if we have to. The enemy has chosen to fight on every field of endeavor except the battlefield. He has eliminated all dissident groups within his society and is shaping a juggernaut that lives, breathes and thinks power—military power, economic power, industrial power—and all for the purpose of exerting influence through power. He can change direction at a whim, reallocate resources by decree and set a course his people must follow regardless of circumstance or consequence. Our dilemma is that

we cannot afford to come out second best in any field of contest. That would succor the enemy and dishearten allies and neutrals.

Now, how are we to organize our freedoms, our habits of choosing individually from among many possibilities, to meet the challenge from a monolithic, disciplined adversary? Does fighting fire with fire mean matching him method for method, institution for institution, technique for technique? If it comes to that, what would we be fighting for?

Second thought: it would seem that the things we don't want to do are clear enough. Not so clear is what we want to do and should do. There are certain things we can expect. Our society is not what it was before the Communists started talking about taking over the world, and there will be more changes as the cold war progresses. I do not think, however, that how we have changed and what we have become—due to the pressures of the cold war and, to some extent, due to our own homegrown weaknesses—are as bad as they are sometimes made out to be. The changes are undigested by a lag in institutional procedures, and they are in many cases still unrelated to our highest ideological concepts. But basically we are the same species we were before the effects of the cold war became noticeable. The anomalies and dilemmas are certainly present. The Western world, for example, still pays its fond respects to gold as the principle of monetary authority even while developing method after method to circumvent the inflexibly hard reality so well expressed in slang, "Them that has, gits." With or without gold, the central problem is to provide capital and credit for "them that hasn't and can't git."

There are many such institutions and allegiances which have either outlasted their usefulness or are invoked with worn-out phrases. Government is again and again spoken of as the enemy of the people. Yet all of us have found uses for government that would make any Jeffersonian blanch in horror. The truth is, we want big government *and* freedom, too. Institutional adjustments must be made to allow such co-existence. And so it goes with the problems of providing good wages and reaping decent profits, achieving economic stability and setting the goals for economic expansion, maintaining price stability and providing an adequate money supply, exercising moderation and recognizing the need for change.

Third thought: in sum, we are confronted with the problems of changing some of our habits and ways without rendering the species unrecognizable when held up before the mirror of Western civilization.

Fourth thought: a Happy New Year to all!—H.B.



Challenge Notes

Labor considers inflation; "protecting" the Common Market;
emotionally satisfying prices; transmitting thought waves

■ SINCE labor union policies are generally regarded as one of the factors responsible for our post-war inflations, it is pleasant to report a growing awareness of this problem among labor union leaders themselves.

Thus, Everett Kassalow, director of research of the Industrial Union Department of the AFL-CIO, recently recommended to the Congressional Joint Committee on the Economic Report that the Administration adopt a more comprehensive policy specifically designed to achieve full employment *and* price stability. Unlike many of his colleagues, Kassalow readily concedes that a government commitment to full employment does make the realization of price stability more difficult. Like many other economists, he fears that our current credit policy reflects insufficient coordination between the Treasury and the Federal Reserve Board.

Even more important, Kassalow realizes that "administered" prices are not due solely to "ir-

responsible" monopolists; inflexible wage costs have some bearing on the problem. "Economic statesmanship" by *both* management and labor is called for.

Some of Kassalow's specific recommendations, such as broadening the membership of the Federal Reserve Board to "include representative sectors of the population," strike us as unfortunate. Credit control by pressure groups would merely strengthen the inflationary bias of our economy. Nor are government research and development programs necessarily the best way to increase productivity.

But Kassalow's statement is remarkable not so much for what he says as for the fact that he says anything about inflation. The "inflationary recession" of 1958 seems to have had a profound and salutary influence on union thinking, for Kassalow's concern has been reflected in the bargaining position of many key unions this year. If this keeps up, we can hope for constructive contributions

from labor in the coming debate on inflation.

A setback for NATO

The recent collapse of talks on a free trade area for all of Western Europe is a serious blow to England and possibly to the economic future of NATO. What Germany's Economics Minister, Dr. Ludwig Erhard, has long feared apparently has come to pass—with his own government's endorsement. The six Common Market countries (France, West Germany, Italy and the Benelux countries) seem determined to base their experiment of regional free trade on a high plateau of tariffs and quotas that exclude competitive products of outsiders.

While it is true that European nations who are not members of the Common Market have wrung some concessions from EEC, these are not enough to assure them access to choice markets. England in particular will find herself outpriced by German, Italian and even French goods.

According to the Treaty of Rome, which set up EEC, specific import quotas among Common Market countries shall in no case be less than three per cent of a country's output of a particular product. This means that France, which today has minute quotas on many products, will be forced to raise them for Common Market

countries, leaving nonmembers like England out in the cold. While the quota for German and Italian cars, for instance, will be increased by more than 10,000, English exports will not change.

This "exclusiveness" bodes ill for the future stability of NATO. For one thing, economic disunity can easily be transformed into political disunity. Even more important, it makes an economic allocation of resources for maximum security that much more difficult. And it makes the realization of the dream of a united Europe even more distant.

Psychology and prices

According to Dr. Ernest Dichter, whose Institute of Motivational Research keeps businessmen posted on the psyche of the American consumer, Detroit's biggest problem is to "build greater emotional satisfaction" into cars. But the one thing that would give us the most emotional satisfaction—lower prices—he does not discuss.

TV telepathy

By 1987, according to Boone Gross, president of the Gillette Co., science will have found ways "to transmit thoughts on controlled wave lengths and project them on screens like television." Gross may be right about our ability to transmit thoughts, but surely not on TV screens.—M. K.



HOUSES FOR 59 LIVING

A succession of building and design changes add up to a radically new home for the average American

by David M. Blank

■ A NEW HOMEOWNER, watching carpenters framing in his house with hammer and nails, may wonder whether it is much different from the one his grandfather built 60 years earlier. Indeed, exterior materials have not changed much over the last half century, while interior changes have been quite gradual and have often been made in older houses as well as new ones. We are thus led to look on the housing industry as basically constant in an age of explosive change. But in reality the changes in physical characteristics and even in location of housing since 1890 have been substantial.

The typical 1890 house had no central heating and relied on fireplaces or individual space heaters. But coal or coke furnaces were gaining popularity, and gas and oil-fired furnaces were introduced

about 25 years later. Steam and hot-water heating systems were followed by the revival, in the Forties, of hot-air systems parallel with the introduction of radiant heating systems. The Fifties brought the heat pump and air conditioning.

The 1890 home had a supply of cold running water only if its owner was fortunate. A special report of the Commissioner of Labor in 1893 said that less than one in five working-class families in Philadelphia, and less than one in 10 such families in Baltimore, had access to bathrooms. By the 1920s, bathrooms with a full array of facilities were standard for new housing, and even in existing working-class housing more than half of the homes had full bathrooms.

Nearly all dwellings of 1890 were lit by gas piped in from cen-

tral sources of supply, or kerosene lamps provided by the occupants. But the use of electricity grew rapidly, and by World War I nearly all new homes were being wired, although gas was still the most common illuminant in workers' homes. Since that date, the primary change has been the increase in service capacity in the typical home to accommodate the fantastic increase in use of electrical appliances.

The typical urban home of 1890, particularly in smaller communities, had no basements and no foundations except posts. With the development of central heating, basements became more common and began to provide also for laundering space and facilities. We are now experiencing a reverse movement; with the development of more compact heating units that can be located in utility rooms, there has been a tendency to eliminate basements as uneconomic.

Insulation materials of various kinds came into general residential use only as recently as the Thirties. Similarly, hard-surfaced floor coverings were nonexistent in 1890; linoleum was introduced around 1900, asphalt tile in the Twenties and vinyl tile a short time ago. Even such prosaic accessories as closets were much less common in 1890; their function was performed by individual

items of furniture.

Most characteristic of the transformation of our society, the garage was added to the typical home during the Twenties and the two-car garage to a considerable number since the Thirties. The equipment and facilities found in today's house that were absent from the home of 1890 account for as much as 25 per cent of its total construction cost.

Decline in size

It is hard to tell accurately what has happened to the size of homes over the last half century or so. On the one hand, a comparison of the typical house of today with old mansions clearly suggests a decline in average size. Not only is the floor area of these older houses substantially greater than the approximately 1,200 square feet in the typical new house, but servants' quarters, pantries and sewing rooms completely disappeared as household activities began to be performed by outside business organizations. This has been only partially offset by the recent growth in family rooms and playrooms. On the other hand, working-class homes around the turn of the century were quite small. A typical New York tenement had four rooms and no bathroom, and housed an average of about eight persons.

Census data indicate that the

number of rooms has declined from almost five per house around World War I to about 4.3 rooms in the late Forties. This reflects the long-term reduction in the size of the family from about 4.2 persons per nonfarm family in 1890 to about 3.3 persons in 1950. In addition, a great leveling of housing standards has taken place over the years, with a much less marked difference between working-class and upper middle-class housing today.

Three major and largely concurrent shifts in the location of new housing have occurred since the turn of the century. The first was the gradual but continuous shift from the North and East to the West and Southwest, and in more recent times, to the Southeast, primarily Florida. The second was the move from farm to city, followed by the move from city to suburb.

An old story

The redistribution of population, and therefore of housing, away from the older, settled areas of the East toward the newer lands of the West is a story as old as our country. The pace has not slowed in the last half century. For every nonfarm family in New England in 1890, there were three in 1950. Proportional changes for the same period were one to four in the Middle Atlantic states, one

to nine in the West South Central States (including Texas), and one to 16 in the Pacific States.

Meanwhile, urban families, which accounted for little more than three in 10 families in 1890, rose to more than six in 10 in 1950. Suburbanization has superimposed itself on this urbanization, introducing a different character to city communities by the Twenties.

In the two decades before 1920, the rate of population growth in the central cities of the 50 largest standard metropolitan areas was about 28 per cent per decade, while the rate of growth of the satellite portions of these areas was only about 26 per cent. Population was crowded more and more into congested central areas. Thus, in a study of Chicago slums around 1900, it was found that one in every four of the apartment houses surveyed was found in the rear of lots occupied by other buildings!

One important reason for the limited area was the long workday. In 1900, the normal working week of six days of nine or 10 hours provided little opportunity to travel long distances to work. A collateral reason was lack of transportation. While some dispersion of population was carried on with the aid of the streetcar and the commuter railroad, it was not until the widespread use of

the automobile in the Twenties that the move to the suburbs began.

The automobile and road improvements not only opened up new suburban areas that had never been developed before, but also made possible the settlement of all the areas that lay between the radial railroad, streetcar and rapid transit lines along which previous development had taken place. The automobile, according to one estimate, has increased the supply of residential land in standard metropolitan areas 10 times more rapidly than population!

Limited land resources

Beginning in the Twenties, the rate of population increase in central cities of the 50 largest standard metropolitan areas lagged far behind that in the satellite areas. In the three decades following 1920, central cities in these areas grew by about 11 per cent per decade; satellite areas, by about 28 per cent per decade. The growth of suburbs has affected not only the location of new housing, but also its character, for the growth of population before the Twenties involved greater and greater pressure upon limited land resources. As a consequence, the share of nonfarm residential construction accounted for by single-family houses declined from more than

70 per cent around 1900, to 56 per cent in 1927. In the late Twenties, apartments in multifamily structures accounted for almost one in three dwellings. But the trend reversed and, since the early Thirties, single-family homes have accounted for about 90 per cent of all new dwellings.

No single change, from the introduction of central heating to the extension of commuting distances, has had enormous effect. But the accumulation of changes, as we can see in the ways of living, has been revolutionary. The old simplicities have given way before a complexity of conveniences and irritations. What will follow?

It is difficult to foresee what American housing will be like a half century in the future. But some views on the near future are possible. The problem of housing, in its contemporary development, has two major elements: the character of the home itself, and the process of getting to it. It is easier, unfortunately, to predict specific improvements within the essentially satisfactory American home than in the increasingly difficult commuter situation.

Equipment and materials

The equipment next to come into general use undoubtedly will be air conditioning, now accepted as standard equipment in industrial

and office buildings. The development of metals for use as exterior wall and roofing materials is already under way. The growth of the heat pump is also assured, as well as the more general use of soundproofing. A more widespread use of plastics as floor and wall coverings is also highly probable.

The use of metals will parallel the increasing transfer of construction activity from the site to the factory, from production by highly skilled craftsmen to factory workers aided by machines. Prefabricators now account for about 10 per cent of all new housing and will certainly expand their share.

Pressure of demand

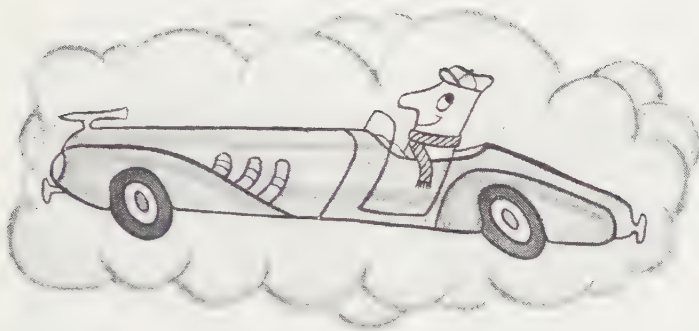
Another trend is the increase in typical lot size. A comparison of the 30-foot frontages of older homes with the quarter- and half-acre to two-and-four-acre minimum zoning in suburban areas today suggests the magnitude of the shift.

The continued upgrading of lot sizes, together with the large volume of single-family house building in the postwar period, has led to increasing exhaustion of available close-in residential land. The pressure of demand has led to construction of homes farther and farther from the central cities and has resulted in longer and longer journeys to work. The next wave of residential building activity,

which will start in the early and middle Sixties, can only take place in areas even more distant from urban centers, if building continues to be concentrated in single-family dwellings as it undoubtedly will be.

We cannot hope for any magical transport improvement in the near future—an economically efficient helicopter, for example—to reduce commuting time sufficiently to compensate for the lengthening distances. Solutions will be partial and will continue to leave the American a much-traveled man. He can hope perhaps that enough energy and civic statesmanship will be applied to the problem of rail facilities to make better use of their only partially exploited advantages. Another part of the solution, permitted by the maneuverability inherent in our expandable economy, lies outside of transportation. The continuing decline in the length of the workday and workweek will allow a greater amount of time to commuting.

We can also expect to see more business firms following the human migration to the residential areas, thus solving the commuting problem for some. But the average man must continue to accomplish the psychological feat of appreciating his improved home the more because of the time and effort needed to get to it. ■



WHY YOU BUY

Motivation research investigates the subconscious man to find the hidden wish that makes the successful sale

by Joseph W. Newman

■ **MOTIVATION RESEARCH** is largely a post-World War II development. A handful of psychologists, anthropologists and sociologists had left the traditional confines of their specialties to study consumer behavior. Their work and what people said about it evoked confusion, unrealistic expectations, outbursts of hostile criticism and predictions that "MR" was only a passing fad. A spectacular by-product appeared in the form of commercially successful popular writings capitalizing on sensationalism and man's old anxiety that someone else would control his behavior by using mysterious forces within him.

On the positive side, one can point to important new thinking about marketing's function and

new insights into the nature of buying and consumption. More behavioral scientists now are working in business than ever before, more research is being conducted, and some major changes have been made in the organizational and personnel provisions for research.

Motivation research is much more than a passing fad, but much less than an easy means by which marketers can get made-to-order solutions to their problems without having to think them through. Many have seen it as consisting simply of the use of certain techniques which may reveal human motivating forces lying below the surface level of consciousness, forces which were hidden from researchers who relied

on the traditional direct-question survey.

The techniques usually have been adaptations of clinical psychology devices like word association, story telling, sentence completion and role playing. In addition, information is gathered in detailed conversational or "depth" interviews, which allow the subject freedom in his response. The research objective usually is not readily apparent. A favorable interview situation can obtain frank comments; a skilled interpreter then identifies the less-conscious thoughts and feelings imbedded in the responses.

Unconscious mental function

With the motivation research development, marketing has recognized the importance of unconscious mental functioning to the point of doing something about it in its research. This situation represents a marked change from the not-too-distant past, when the buying of goods and services was regarded as exempt from unconscious mental functioning.

The new techniques are not perfect. When competently employed, they can be a most valuable addition to the marketing research tool kit. Well-conducted, detailed interviews become indispensable for exploratory studies seeking to identify the important dimensions of the subject area. It should be

emphasized that the "depth" interview and the projective techniques of motivation research are not duplicates of the psychiatric interview or the projective tests of the psychological clinic. They are adaptations made for less-ambitious purposes than obtaining detailed personality inventories of individuals. Most motivational studies have used several techniques in combination and have directed themselves to such tasks as learning about the nature of grocery shopping or housecleaning, the meanings of a particular product or brand, and what a given advertisement actually communicates.

To regard motivation research as primarily a matter of techniques, however, is to miss the main point of the development. In order for any research tool to be of value, it must be used with knowledge of what one is doing. Potentially rewarding areas for exploration must be identified; fruitful hypotheses for study must be generated. Then someone has to be able to make something out of the data.

Marketing's quest for a greater understanding of why people buy has been bogged down for many years. It has lacked ways of thinking which were adequate for generating new concepts about the nature of consumers, products, brands, retail stores and advertis-

ing. A notable breakthrough is being made by studying buying and consumption not as isolated acts, but in the context of all human behavior.

Dynamic psychology says that man has certain basic needs which are only partially satisfied. The satisfaction or frustration of these needs in the early years determines in large measure what kind of a person the adult will be; the effect extends to behavior and, specifically, purchasing behavior. If an act is important to the extent that it satisfies a person's needs, investigation of how the person feels about a product or brand can lead to an understanding of both the character and strength of the meaning that a product or brand has for him. Studies have emphasized, for example, the need for emotional as well as financial support felt by buyers of insurance. They also show that foods not only serve physical needs but are used as a means of expressing hostility, love or frustration.

Reflected image

The concept of basic needs implies that human behavior is purposeful and that an individual's actions are consistent in terms of his needs. Related to this idea is the concept that a person's behavior is a function of his self-image, the kind of person he

thinks he is and wants others to think he is. His image is reflected in some way in everything he does. It is most strongly evident, as far as his purchasing personality is concerned, in purchases which more closely represent an extension of one's self such as housing, autos and clothing.

Social class has proved to be a useful means of differentiating among consumers. For certain purposes, it is superior to the more conventional factor of income which has the weakness of assuming that a rich man is just a poor man with more money. The two may differ markedly in their values, tastes and spending habits. Studies have demonstrated that the social status of retail stores is a primary factor in determining the store's clientele. The shopper goes to the stores where she feels she fits in and will be well treated.

The buying process is being regarded not only as an economic activity in the traditional sense, but as a matching of buyer's needs and his self-image with his image of the product, brand or retail store. Many of the motivational studies to date have been concerned with identifying the relevant dimensions of these images. They have shocked executives who found out that their assumptions about how people regarded their companies, products and brands were erroneous.

Broader and more meaningful marketing concepts see a product no longer only in terms of its utilitarian purpose, but also as a symbol by virtue of its form, size and color, and its psychological and social functions. A brand now is being viewed broadly as a composite image of everything people associate with it. In the area of personal selling, some attention now is being given to identifying the various human as well as product and service factors which make for successful salesman-customer relationships. Advertising, which has lived primarily by quantitative criteria such as costs, circulation, readership and ratings, now seeks to learn how a consumer uses a given medium like television and magazines, and what personal values he obtains from it. Psychological and social factors have been added to the usual demographic ones for grouping people for studies of buying and consumption.

The forms in which wants are expressed are shaped by various personal, group and cultural influences on behavior, including the persuasive efforts of sellers and advertisers. But the marketer, contrary to some popular assumptions, does not create human wants. He can only offer products and services by which wants may be satisfied.

There has been no overnight

revolution in marketing; motivation research represents only the small beginnings of a growing movement. Far too little research of any kind is carried on as an integral part of decision-making, and research employing the newer behavioral science concepts still is a minor part of the total.

"Hidden persuaders"

One should also guard against the impression, fostered by loose writings about "hidden persuaders," that advertisers now are able to exercise some magical power over people. It may well be that the consumer, who still retains the right to buy or not to buy as he sees fit, does a better job of shopping for his wants than he has been given credit for.

Since many variables influence the sales outcome, business' most pressing problem is still its inability to measure the amount of sales produced by a given promotion expenditure. This is also true of advertising as well as research. Gathering valid data is one step, and determining what should be done about them is another. The latter is clearly the responsibility of the business executive.

Many motivational studies in the past few years have made a positive contribution. In a few striking cases, research gave rise to changes which were followed by marked sales increases. Yet the

strongly favorable evidence does not constitute absolute proof of the value of the research. In each case, more than one change was made at the same time, and some of these were unrelated to the research findings.

A manufacturer of baby foods used motivational research to learn more about the satisfactions sought by the mother. Sales were not up to expectations despite unquestioned product excellence. The research showed that the mother took nutrition value for granted in the leading brands. She selected the brand she thought would please the baby most, using her own taste preferences as guides. The solution was to make the baby food taste better to the mother. Sales responded vigorously.

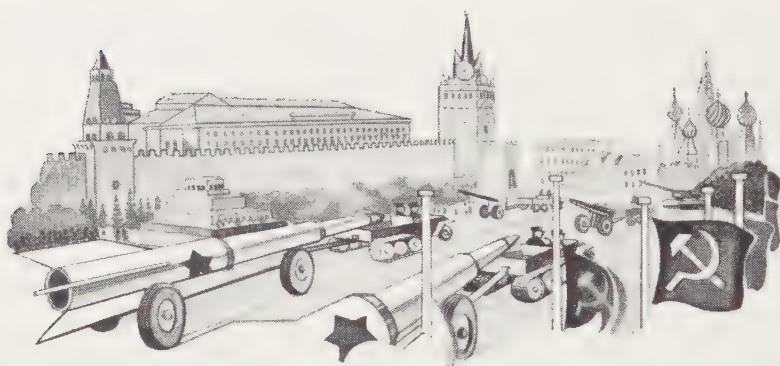
A motivational study showed that while most women like a certain food product, they also saw it as too rich and heavy according to current taste and cooking trends. The company symbol emphasized this old-fashioned element. A new advertising approach streamlined the symbol to bring it in line with modern dietary and social ideas, and the brand has enjoyed marked increases in sales.

Size and reputation

A leading insurance company found that while people were interested in low cost, they found it

difficult to evaluate the protection they were buying. Hence, they wanted a guarantee that a company could be depended upon to provide both the financial protection and the emotional support they sought in times of emergency. The major criteria for selection of a company were found to be size and its reputation among one's friends. The study pointed out that people filing claims frequently were suffering from emotional upset. It also provided detail on how people expected a "good agent" to behave. The findings led to an important change in the company's advertising approach and in its training course for agents and for claims adjusters.

Motivation research studies have served to challenge old and frequently forgotten assumptions and to force a rethinking of basic policies. In the past, marketing has too often not studied the products to be sold; it focused its attention on how to sell them. Now, emphasis is being given to a broader concept which includes systematic study of people's wants as a basis not only for distributing goods and services but for planning and merchandising them as well. Orderly inquiry and new ways of thinking about human behavior are essential. The expectation should not be final answers, but advances in understanding. ■



THE SOVIET MILITARY ECONOMY

The primary instrument for the attainment of expansionist goals

by Roman Michalowski

■ EVEN BEFORE the advent of the 20th century, Russia had reached a point where further territorial expansion could be achieved only at the price of conflict with other great powers. Her emergence by the turn of the century as one of the world's major military powers began to influence profoundly the course of international relations.

A dramatically new situation was created when the Communists took power in 1917. The new men of Russia went so far as to challenge the legitimacy of every capitalist government in the world, thereby giving a new impetus to Russian expansionist aims.

In the early stages of the Bolshevik revolution the Soviet leaders had slight material resources.

The threat to the Western world was exclusively ideological, challenging the soundness of Western institutions when the West was exhausted by the terrible effects of World War I. This threat receded in the early Twenties, but by then the physical strength of the Soviets began to increase. Russia resumed the economic and military development which had been interrupted by war and revolution.

Soviet gains achieved at the conclusion of World War II had very little to do with the political appeal of Communist ideology. The bald fact is that Soviet political objectives were achieved by open use of military power. The Soviet threat to the Western

world continues to be, in large measure, military and territorial, along traditional lines.

This threat is starkly real because the Soviet bloc has an effective military-economic base, and a dangerous potential of power being built on that base. The bloc occupies about one-quarter of the world's habitable land surface. Its population approaches the billion mark, and every important natural resource can be found within its vast confines. The emphasis on education has no doubt increased the available talent among its many peoples; when education was still limited, these peoples provided outstanding men in science and technology. The general poverty should not be interpreted as a sign of military weakness; the Soviet bloc represents a vast reservoir of resources, both human and material, which are exploited by the leaders of a totalitarian state whose planning continues to be motivated by Soviet Russia's aim of world domination.

The basic facet of Soviet economic policy is an overwhelming concentration of resources in military strength. Priority is given to the production of those machines and raw materials which assist or will assist in the production of arms. Thus, according to the statement of Malenkov made in 1953, 70 per cent of the total in-

dustrial production of the Soviet Union consisted of means of production. By American definitions, probably no more than 25 per cent of our production was similarly employed. Differences in terms and in economic development reduce the impact of the ratio, but the greater military concentration in the Soviet bloc is an undeniable fact. There are no indications that this relationship has undergone any basic change since 1953.

Even the most dubious observer would have to admit that the results of Soviet Russia's consecutive Five-Year Plans are spectacular in terms of production of major industrial commodities (*see table, page 20*). To these figures of Soviet production in 1955 we must add the production figures of the East Central European countries: 208 million metric tons of coal and lignite, 13.0 million metric tons of crude oil, 15.0 million metric tons of steel and 74.82 billion kilowatt hours of electricity.

The increase in production of the European satellites since 1955 is far less spectacular. Nevertheless their steel production is expected to reach 17.0 million metric tons this year, indicating the continuous drive to expand heavy industries. Thus, the combination of the expanding resources of the Soviet Union with those of the satellites has considerably in-

creased the military capabilities of the entire bloc.

In 1958 the non-Communist world produced approximately twice as much steel, three times as much pig iron, two-and-a-half times as much coal, five times as much electric power and nine times as much petroleum as the Soviet bloc. However, the stronger economy of the non-Communist bloc will have devoted much less output to military production.

In 1957, the Soviet Union scrapped its Five-Year Plan for 1956-60 and announced that the growth of industry would be scaled down from the customary 10- to a seven-per-cent annual increase. But this was followed by the recent announcement of a new Seven-Year Plan which places increased emphasis on large-scale capital investments and industrial

construction. The economic targets are fantastically ambitious: a 179-per-cent increase over the current iron ore production, and other increases varying from 60 to 70 per cent. If this new plan is successful, the production of the whole Soviet bloc will equal, and in some instances overtake, the West by 1972, thus altering the military balance fundamentally.

Western experts have traditionally held that Soviet Russia's main threat comes from its capability of mustering a very large military force at the beginning of a war, and that this initial advantage could be dissipated in a protracted war which would give the West time to convert to all-out military production. However, if the new Soviet Seven-Year Plan is successful, it will make this reason-

U. S. and Soviet Production of Key Industrial Resources

YEAR	Steel*		Coal and Lignite*		Oil*		Electricity ^x	
	U. S.	USSR	U. S.	USSR	U. S.	USSR	U. S.	USSR
1945	72.52	12.3	575.66	149.3	230.96	19.4	228.5	43.3
1950	88.17	27.3	509.96	261.1	265.98	37.9	329.1	91.2
1955	106.47	45.3	446.63	391.0	334.84	70.8	546.4	170.1
+1958	77.35	60	368.55	429	330.5	120	640.0	250
+1965	131.45	91	646.1	609	465.37	240	1,149	520

+Estimated

*In millions of metric tons

^xIn billions of kilowatt hours

ing obsolete, because Soviet Russia will reach a stage of development by 1965 which will enable her to carry on even in the case of a protracted war. Furthermore, she will also increase her potential in two domains of paramount importance, nuclear weapons and long-range missiles. The West must reckon with the possibility that Soviet Russia could destroy its weapon-producing potential, along with the work force, in a few hours, thus making it impossible for the West to impose a protracted war.

Mechanical evaluation

Such a mechanical evaluation, however, leaves out too many important factors. The Soviet bloc depends primarily upon an inadequate and overextended railroad system. In 1940 track length was 106.1 thousand kilometers, carrying a load of 592.6 million metric tons. In 1955 the length was increased by only 14.6 thousand kilometers, while the total freight tonnage more than doubled, indicating a highly vulnerable and inflexible rail transport system. Motor transportation is also unsatisfactory due to the general absence of paved roads.

Raw materials represent another weakness. The excessive exploitation of the richest areas has depleted a great number of the best sources of supply, especially

of oil, coal and iron ore. Consequently, the Soviet bloc must exploit resources which are geographically distant or technologically unsatisfactory.

Sacrifices in the standard of living are a no less fundamental weakness. High achievements in heavy industry and armament production have weakened other sectors, especially consumer goods production, with a consequent neglect of light industries. More important is the low productivity of the workers, the unmistakable companion of a low standard of living. Last but not least, the imperious nature of Soviet priorities, dictated primarily by military requirements, has led to waste as a result of lavishness in favored areas and waste through extreme inefficiency in the deprived areas.

Agriculture is another serious concern. Soviet arable land resources, equal to 70 per cent of the American, are of a quality permitting adequate food production both in peace and war. The Communist party, however, insists upon rigid control of the farmer, limiting his incentive and exploiting agriculture as a provider of human and material resource for industrialization and armament. Two-thirds of the 47 million persons in agriculture are women, children and older people. Eighty per cent of the agricultural labor force is semiliterate,

with a resultant low productivity. Furthermore, the Soviets have never carried out any logical or balanced effort at irrigation, drainage, liming, herd improvement or reforestation, preferring risky expedients such as the "New Land Program."

Soviet leaders must be influenced by popular pressure for improved living conditions. Obviously the government cannot ignore the call, and has responded by a major drive to build up the chemical and synthetic fiber industries. Another indication was Khrushchev's announcement of the liquidation of machine stations and the granting of some freedoms to the collective farmer.

Additional effort

After the events in Berlin, Poland and Hungary, Soviet leaders found it necessary to extend more help to Eastern Europe, where unrest due to poor living conditions has far more dangerous implications than the dissatisfaction in the Soviet Union. All the products which have been sent to Eastern Europe, while reducing the resources Moscow has available for the increase of industrial output at home, impose an additional effort on the people of the Soviet Union.

The Soviet government also must take into account the ambitious program of industrialization

set by the Communist Chinese leaders. If those plans are to be fulfilled, China must obtain help in the form of machinery, raw materials and technical advice. But to help China, Moscow will have to increase its own production if the desired goals of military capacity are to be achieved.

Until lately the threat of Soviet Russia has been appraised in terms of superior military capacity rather than in terms of economic superiority. The present Seven-Year Plan and Soviet economic aggressiveness in the underdeveloped and uncommitted areas imply that we must reconsider. The Soviet government believes it feasible to attack its three main problems simultaneously—to continue expanding capital investment of high military priority, to improve its standard of living and to compete with the West in assisting underdeveloped areas. It intends to reach its goal of absolute superiority within 15 years, before 1972.

How will the people of the Soviet Union and of the Eastern bloc react to another major effort, while their demands for improvement of living conditions can be met only partially at best? A distinction can be drawn between three separate areas: the Soviet Union, China and the European satellites. In the Soviet Union there has been a definite improve-

ment of living conditions since 1945. In addition, the average citizen, aided no doubt by constant propaganda, is a Soviet patriot and will cooperate with the government in carrying out the Seven-Year Plan even while demanding more consumer goods.

A new phenomenon

In China, the building of a Communist totalitarian state is still in its early stages, and the question of living standards, which in the past have been extremely low, is not yet up for serious consideration. In the meantime, the increasing power of the centralized government, a new phenomenon in China, is used to implement far-reaching economic plans regardless of hardships. China will probably increase its economic and military potential, contributing to the aggregate military capacity of the anti-Western bloc regardless of sacrifices in living standards.

Different factors operate in Eastern Europe, where the industrialization imposed by the Soviets has lowered living standards. The industrialization of these countries is linked to compulsory export quotas to the Soviet Union, and their exports are not adequately compensated. The peoples of Eastern Europe are conscious of this exploitation and resent it. However, the problem goes even

deeper. The most important prototype of a Communist state had its origin in Russia; and Eastern Europe resents the Moscow brand of communism because of its foreign connotation and because of Moscow's constant interference with their internal affairs. The Russians will find it increasingly difficult to maintain a completely stable Western frontier.

The economic policies of the Soviet bloc will determine the growth of its military potential. The Soviet Union, China, and to a lesser degree, the satellites, will continue to increase their production of a broad range of modern military weapons, or at least maintain the present level of production in some cases. The Soviet Union itself will make an intense effort in the production of missiles and atomic weapons. Furthermore, the Seven-Year Economic Plan, just announced, will very substantially increase the military power potential of the Soviet Union, a fact which is bound to impress the neighbors of Soviet Russia as well as the neutral nations. This increase will play a major role in Soviet expansionist policies. Together with the economic drive into the uncommitted areas, it constitutes an increasingly effective instrument of direct or indirect pressure at the service of Soviet Russia's short- and long-range policy objectives. ■

HIGH WAGES

Are they really responsible for the employment lag?

by Sidney J. Kronish

■ IN THE PAST, the question of wage reductions as a recession remedy represented a great gulf over which wage earners and business managers shouted at each other with fury, if not with understanding. Prior to World War II, the management spokesmen received strong support from some professional economists, but this is no longer the case. The reasons for the recent silence of the economists on this subject deserve to be explored.

It is the view of management that recovery is crucially dependent on profits, and profits cannot be high enough to stimulate investment unless costs, especially wages, are not excessive. The president of a nationwide management organization recently attributed the recession to the wage policies of unions.

Organized labor also has its official doctrine: recessions result

from inadequate purchasing power, while wage increases are the right road to recovery. Early in the second biennial convention of the AFL-CIO, a delegate startled his colleagues by suggesting that perhaps the management spokesmen were right. The convention rebuffed him and expressed its opinion in a resolution on the national economy: "But the very fact of an economic slackening makes it doubly imperative that unions gain sizable wage increases to bolster consumer purchasing power and thereby provide a needed stimulating force for an upturn in the economy."

Such conventional statements by management and union representatives, even if they do not always correspond to what they say in the more cloistered confines of a bargaining session, are to be expected. What may be unexpected is the comparative silence on this

subject of the labor economists. As recently as the Great Depression, the wage policy issue was in the forefront of debates among economists. It is no longer.

It surely cannot be that collective bargaining and wage determination have less significance today for economic theory. The reasons for the reticence of economists must be sought elsewhere.

Whether our society is properly labeled "laboristic" may be debatable. Economists do agree that the American labor movement has undergone a transformation from a transient and immature to a permanent and mature institution. The process of change usually imposes social costs and confers social benefits. Only a naive faith in the inevitability of progress would enable us to assume that the benefits must outweigh the costs.

The emergence of a mature labor movement has compelled social scientists to examine more intensively the consequences of unionism. A most significant economic question is whether collective bargaining is a help or a hindrance to the attainment of economic stability and progress.

During the post-World War II period there has inevitably been greater concern with the inflationary rather than the deflationary potentialities of collective bargaining. We have, however, al-

ready been subjected to three recessions, and the notion that depressions are now obsolete cannot claim any substantial support among professional economists. In any case, during each of the recessions there was a revival of interest in whether wage policies contributed to the downturn and inhibited the upturn.

Labor economists are noticeably reluctant to answer such questions, a reserve more attributable to uncertainty than to modesty. Ironically, this is the very period in our economic development when the evaluation of the impact of unionism has the greatest relevance. Yet the labor economist is by no means confident that his store of theoretical and empirical knowledge is adequate to the task.

It is only possible to trace the broad contours of some of the developments which account for the doubts. Classical wage theory is not successfully integrated into general economic theory, and conceptual innovations have made such an integration more difficult.

Wage-fund doctrine

Wage theory has been among the least satisfactory areas of economic theory. The wage-fund doctrine enjoyed considerable esteem among classical economists. It purported to prove that no action by workers could permanently alter the pattern of distribution in

their favor. If workers temporarily managed to secure a larger share of the wage fund—the amount of wealth in a national economy available for wage payments—there would be a reduction in profit expectations, a decrease in capital accumulation and a decline in the demand for labor. Organization in unions was futile, and pressure for wage increases probably disastrous. But by the end of the 19th century, the economists were giving up this wage-fund doctrine.

Marginal productivity

The successor to the wage-fund doctrine, marginal productivity theory, had a similar fate. It said that market forces would compel the firm to pay wage rates which are the equivalent of the value-productivity of the workers. A firm could not hire additional workers if they demanded more than the value of their marginal revenue product—more wages than the profits their work would produce. The economists reasoned arbitrarily that what was true of one firm had to be true about society in general. This short but perilous leap in logic assumed that unemployment would persist if workers demanded excessive wages.

There is no need to review here the acrimonious debate over marginal productivity theory that

raged among the inhabitants of the academy. While there is, as yet, no successor to this concept, it is more often encountered in general economic theory than in the monographs of labor economists. Both conventional theories, wage-fund and marginal productivity, lead to one conclusion: involuntary unemployment is impossible. The assumption was that the economy would tend toward an equilibrium where all job seekers could find work. Temporary unemployment would mean lower wages and thus lower costs. Business would be encouraged to expand and thus hire more workers until wage costs caught up with revenue.

A troublesome feature of traditional economic theory was its faith in the effectiveness of price competition. Once imperfect competition was admitted into the sacred precincts, the outcome of wage bargaining became uncertain. The old logic set up a chain of interdependent variables that linked wage rates—through costs—to prices, output and employment. But this reasoning proved no stronger than its weakest link. There was no longer a guarantee that lower wages meant correspondingly lower prices; wage rates could induce slighter, equal or greater changes in prices. Collective bargaining could not be visualized as intruding upon a situ-

ation where costs and prices were at their "proper levels" as determined by autonomous forces in the market. Therefore, the consequences of collective bargaining could no longer be safely predicted by reference to "received theory."

Propensity to spend

Keynesian economics dealt the heaviest blow to the idea that involuntary unemployment was impossible. Keynes focused attention on the possibility that prices may have a different degree of flexibility than wage rates. The effect of wage reductions, among other things, depended upon whether prices declined more, less or as much as wages. It would also reflect the propensity to spend of those with less income—as compared to the propensity to spend of those whose real income was increased. The reduction in costs resulting from wage cuts may have stimulated profit expectations and led to a rising level of investment and employment. But the reduction in income may result in a decline in consumption great enough to dampen profit expectations and still further reduce investment and employment.

The attempt to link wage policy with monetary theory was not wholly successful. A reduction in wages leading to a decline in interest rates need not have a de-

cisive effect on investment decisions, which would be encouraged by lower interest rates—according to classical theory. Such decisions may be more influenced by profit expectations than by reductions in cost. Monetary theory suggested, it is true, that wage reductions could lead to a rising level of investment and employment by initiating a decline in interest rates. But would it not be more sensible to try to reduce interest rates directly by making more credit available? Wage policy was surely more hazardous and indirect.

Traditional economic theory has proven frail guidance in wage policy. Nor have the increasing number of valuable empirical studies of the consequences of collective bargaining supplied reliable criteria, since they fail to provide a consistent pattern of conclusions. Some undermine the belief that unemployment provides the effective pressure on wage rates. Others indicate that wage levels are at least as much a result of noneconomic considerations as they are the consequences of supply and demand.

Inflationary bias

It has been shown that the extent of unionization is not an independent influence in determining wage rates. This has been disputed, and evidence has been pre-

sented that collective bargaining imposes an inflationary bias. Surprisingly enough, there are studies which establish that in particular industries collective bargaining has inhibited rather than stimulated wage rises. In specific instances it is possible to point to negotiated wage changes which reflect cyclical influences. Other cases show wage rates as remaining "sticky." Certainly, earnings and work stoppage data do show some correlation with the business cycle, but the value of such evidence can readily be challenged.

The sources of the reticence of the labor economists to make wage policy recommendations have been revealed. Neither economic theory nor empirical studies provide a sufficient area of consensus for such recommendations.

Flimsy foundation

Until we have better data, wage policy recommendations will rest on flimsy foundations. Early in the Great Depression as eminent an economist as Arthur Pigou advocated wage cuts as a spur to revival. But it would be difficult today to find an equally distinguished economist to recommend a similar solution. Specialists now rely upon monetary and fiscal rather than on wage policy.

This alternative is preferred for several reasons. Labor economics does not provide any as-

surance of the workability of wage policy. Secondly, in a democracy with a mature labor movement, sufficient unemployment to put effective downward pressure on wage rates would not be tolerated by the public. A real test of the classical thesis of the impossibility of involuntary unemployment is not feasible because it cannot be politically palatable.

Wage policy as a solution to the recession problem suffers from an additional disability in a private enterprise system. Even if there were substantial agreement as to an optimal wage policy, there is no mechanism short of centralized economic control that could carry it out. There are some 100,000 collective bargaining agreements in existence. Neither on the labor nor on the management side are bargaining structures centralized. It would require a revolutionary change in our institutional arrangements to achieve wage policy conformity.

Perhaps the situation is not serious. The wage policies pursued by individual unions and management in each of the three post-World War II recessions do not appear to have been a real obstacle to recovery. This is not intended to suggest that a greater degree of plasticity of wages and prices may not be desirable. But it makes more sense to rely on other policies. ■

Professor Frank H. Knight— Classical Defender

■ FEW AREAS of human speculation provide as many opportunities for being unreasonable as the science of economics. If the eminent common sense of Adam Smith did achieve communication with the human mind, only the monumentally wrong-headed Karl Marx could persuade men to die for an economic idea. It has been Frank H. Knight's greatest handicap that he has never been egregiously in error.

A farmer's son, Knight, 73, has not permitted his intellectual ascents to pull his feet away from the earth, a distinguished feat in the academic clime of the University of Chicago. His sense of reality, however, has not prevented adventurings into other disciplines, and Knight's economics has warm relations with philosophy, psychology, ethics, religion

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.



and political science.

Knight has conceded that he failed to appreciate the disastrous extent of the depression at first. The error, a venial one for a theorist if not for a politician, was due to a common sense that could not believe in the mon-

strous idiocies human institutions could produce. His moderate remedies seem pale today before the violence of the disease.

It was natural that Knight, who has never lost sight of simple arithmetic, should protest occasional New Deal efforts to accomplish the mathematically impossible. If the New Deal did achieve practical results that Knight the citizen approved, Knight the economist was not obliged to believe that they were due to scientific excellence. Never a purist in terms of application, he could attribute practical success to the noneconomic that he recognized through his study of other disciplines.

Knight was also too reasonable to develop a passion for the ideas of Lord Keynes. Certain Keynesian assumptions—the arbitrary classification of dependent and independent variables, the willingness of people to credit the nominal value of money despite devaluation *inter alia*—still make strong demands on a disciple's faith. It was so easy to find the flaws in the Keynes artistry that he could not quite measure the Englishman's stature as a political economist.

But if the world has, at times, raced too fast toward disaster for Knight to keep up, it has discovered that a more moderate pace puts it within range of much useful wisdom.

A theorist by taste, Knight has refused to become intoxicated with pure doctrine. "The essential point," he wrote, "is that economics is a branch of aesthetics and ethics to a larger extent than of mechanics." Knight used this imaginative approach to locate the dangers that our society faces.

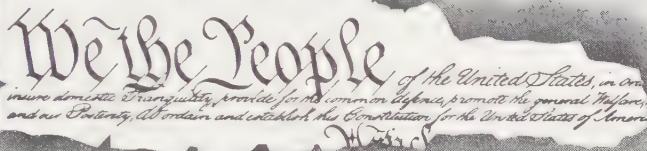
He has had the courage to call himself a liberal while criticizing contemporary liberalism with sharp effect. He has noted the tendency toward "fixity, security, conformity, loyalty and authority" and away from "progress, adventure, individualism, love of truth, liberty." Yet of the liberals, he wrote, these "educated (as well as honorable) men," were virtu-

ously trying to bring this about.

Knight's economics remains in the neoclassical tradition, although he has observed institutional effect and change with a clear eye. Refusing, however, to give up his theorizing in favor of institutional classification, he ventured into the area where sound theory is buffeted about by irrational man. Thus he favors the loose description of marginal utility by Karl Menger to the precise mathematical definitions of W. Stanley Jevons and Leon Walras. "Business life," he noted, "in the strictest sense never conforms closely to the theoretical behavior of an economic man. . ."

But Knight insisted, "In spite of the foregoing, there is a science of economics, a true, and even exact, science, which reaches laws as universal as those of mathematics and mechanics."

Knight sought to trace those laws accurately. But he saw how human institutions could affect the law of supply and demand, and he could look beyond competition to the shadows of monopoly. Abruptly dismissing the free-enterprise hopes of Ludwig von Mises, he looks for strength in the individual and his need for freedom and honor. The great meanings of economics are not to be found, he wrote, in the superficial calculations of the market: "There is no value but value."—D.F.



We the People
of the United States, in order to insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.
Madison

the ECONOMICS of our Constitution

New interpretations try to bring our basic law in line with contemporary economic realities

by Clement E. Vose

■ LEARNED HAND, the great judge and legal scholar, has likened the words of the United States Constitution of 1789 to "empty vessels" into which a judge "can pour nearly anything he will." This judicial opportunity has fallen to 92 men since the sitting of the first Supreme Court of the United States in 1791. Their views of the nature of the Constitution, of the function of the Supreme Court and of the proper relationship between government and society have fluctuated under the stresses and strains of 17 decades.

The popular and, I think, correct notion that ours is a "living Constitution" has since at least the 1920s been associated with the

view that the economy must be closely regulated by governments. Yet, in its essentials the concept of the living Constitution is a broader one. It simply assumes that in a democratic country with a dynamic economy the basic law would be decided anew by each generation. Since there are disagreements within as well as between generations, it should be apparent that there is always open debate over the Constitution.

Arguments that the Constitution must be up to date to be alive have not always moved those Supreme Court justices who found economic theories of a past century modern enough. Critics of judicial wrongheadedness in constitutional interpretation have in

general recognized the power of the Supreme Court to review legislation. Yet, a continuing battle is being waged over the manner in which the great power of judicial review should be exercised. This, too, is in the nature of things, for we have the word of Charles Evans Hughes that "we are under a Constitution, but the Constitution is what the judges say it is. . ."

The economy and the Constitution are related by the fact that the Supreme Court may review governmental regulations of business, labor and agriculture. The empty vessels of constitutional power contain authority for Congress "to regulate commerce among the states," "to declare war," "to raise and support armies," and "to lay and collect taxes . . . for the general welfare of the United States." The Congress may also "make all laws which shall be necessary and proper for carrying into execution" these and other specific powers.

Exploited limit

The limitations that are scattered through the Constitution are also phrased in a language affording federal and other governments full scope of invention in interpretation. Here, however, the justices have the initiative and exercise a veto over the states or

the other branches of the national government. The most heavily exploited limit has been the provision that no state shall "deprive any person of life, liberty or property, without due process of law." This Fourteenth Amendment provision is a duplicate of the Fifth Amendment due process clause limiting the federal government.

Next to these in importance has been the intricate obverse of the commerce power. While granting Congress authority to regulate commerce among the states, on the one hand, it has been interpreted to limit federal efforts to control commerce within the states, on the other. In the school segregation cases the limitation applied by the Supreme Court was the Fourteenth Amendment provision that no state shall "deny to any person within its jurisdiction the equal protection of the laws."

There are other powers and limitations, but these are the most important—for the simple reason that history so dictates. Constitutional exegesis cannot be performed successfully in a bookless cloister. No one apart from history could know that many once-pregnant phrases have been stripped of life and consequence by decades of disuse. No less a man than the scholarly Justice Robert H. Jackson confessed total ignorance of the Ninth Amend-

ment. Although the Constitution of the United States can be read in 20 minutes, there are passages not worth the trouble. Thus, there has been no need to test the insistence of the Ninth Amendment that rights not specifically mentioned in the Constitution are assumed to be reserved to the people; no one has required this iteration of the obvious. Similarly, conditions have not called upon using the authorization of reduced Congressional representation for states denying citizens the vote.

Breath of meaning

American constitutional development has seen the Court apply limitations that have slowed down but seldom stopped permanently the imposition of economic controls by government. Prof. Robert A. Dahl has recently published an analysis of the 78 cases in Supreme Court history in which 86 different provisions of federal law were declared unconstitutional. Many of these decisions struck down statutes closely related to the economy. Yet nearly all of them were re-enacted or modified by Congress and accepted as valid by the Supreme Court within a few years. This was true, be it remembered, of the 13 invalidations of New Deal legislation. By the end of 1937 it was clear that the New Deal was safe from further constitutional difficulties, for

where the "Nine Old Men" had stressed constitutional limitations, the "Roosevelt Court" of the next decade was to breathe new meaning into the powers of government.

On the occasions when the Supreme Court has held a position tenaciously, the response was amendment of the Constitution. This procedure was followed after 1895 when a federal income tax was declared unconstitutional. The inevitable reversal came but not until the Sixteenth Amendment was finally ratified 18 years later. The experience was different with the Court's adverse decisions on federal child labor laws. Child labor acts of 1916 and 1922 were deemed unconstitutional. Then followed the frustration of a Child Labor Amendment, which won approval by two-thirds of Congress but failed to obtain the necessary adherence of three-fourths of the states. This experience revealed fully the severe difficulties entailed by our cumbersome amendment process. Finally, however, the power of the federal government to regulate child labor in interstate commerce was recognized in 1941 when the Supreme Court reversed itself in principle and sanctioned the Fair Labor Standards Act of 1938. Whatever one may think about the propriety of constitutional change by judicial decree, our history shows that

the Supreme Court has normally been a better instrument for change than amendments.

Today the desires of Congress and of the states to deal with economic subjects are largely unhampered by the Supreme Court. This is true even though government power since World War II has often been used for somewhat different ends than during the Progressive Era and the New Deal. For if the commerce clause gave Congress power to regulate industrial relations in one way with the Wagner Act of 1935, it also permits regulation of another sort through the Taft-Hartley Act of 1947. As long as national economic policy is a refinement or extension of recognized powers, few constitutional problems arise. Take the powers to impose a tax for social security or internal revenue. Once these powers won recognition, they could be exercised entirely at the discretion of Congress. A tax of 91 per cent of income is clearly as valid as a tax of one per cent. This does not mean that the Supreme Court's work no longer has a bearing on the economy, but simply that the Constitution as presently interpreted is not an impediment to legislation.

Classic expression

These views were given classic expression in 1949 when the Su-

preme Court upheld the constitutionality of a state "right-to-work" law. At issue was the validity of a North Carolina statute making it unlawful for an employer to refuse employment or to discharge anyone because of membership or nonmembership in a trade union. Justice Hugo Black spoke for a unanimous Court in holding that the due process clause did not prohibit the states from outlawing closed or union shop agreements. "Just as we have held that the due process clause erects no obstacle to block legislative protection of union members," said Justice Black, "we now hold that legislative protection can be afforded nonunion members."

Prof. Edward S. Corwin believes that "the really distinctive thing about the Supreme Court considered as a governing body is that its make-up usually changes very gradually, so that for considerable intervals it will be found to be under the sway of a particular 'social philosophy,' the operation of which in important cases becomes a matter of fairly easy prediction on the part of those who follow the Court's work with some care." This is true enough, but one should not assume that the social philosophies of the judges completely explain our national constitutional law. Two other factors have great signifi-

cance. There are the interests in society which care about the shape of the law and the writers or advocates who defend those interests by developing legal theory or arguing cases in the courts.

Great innovators

The restrictive constitutional theories which suffocated government regulation of the economy before 1937 were developed by law writers, utilized by organized business interests and accepted by a majority of the Supreme Court over the better part of half a century. The important law writers were Thomas M. Cooley and Christopher G. Tiedeman, who were the great innovators in constitutional theory after the Civil War. They formulated the liberty of contract principle as a restriction on governmental power. The Supreme Court incorporated this theory into the Constitution only after it was advanced in litigation by various business interests. Generations of lawyers from John A. Campbell and Joseph Choate to James Beck and John W. Davis represented the business community in countless cases which resulted in judicial limitations on government regulation of economic affairs.

Today a contrary social philosophy predominates, not only among Supreme Court justices but also in the country. After the

turn of the century, progressives who favored social and economic reform were often forced to work for constitutional reform as well. This was true of social reformers like Jane Addams and Florence Kelly who were effective crusaders for protective labor legislation. It was also true of politicians like Robert LaFollette and Franklin D. Roosevelt. Early legislation was often emasculated by the limited constitutional principles discussed above, but the labors of Louis D. Brandeis and other outstanding lawyers were at the disposal of government attorneys defending legislation in the courts, and they won the day in the long run. Since then, the Supreme Court has rather completely accommodated the regulatory approaches of the Progressive Era and the New Deal to the Constitution.

Today the recognized powers of government seem sufficient to permit government to do all that is now desired. Some would like to see the social philosophy of laissez faire recapture the Supreme Court. Then judicial review would again be exercised to place limits on regulations of the economy. These limitations are now idle, although the Court has turned them against that social legislation of the Southern states which provides for segregation. There is today, in sum, no great pressure

for halting federal intervention in the economy.

Nor is there a pronounced tendency in the opposite direction—toward the further extension of federal powers. This would create new constitutional problems. For example, a national commercial code to cover all bills of sale, lading and other transactions might gain favor. Prof. W. W. Crosskey of the University of Chicago Law School earnestly believes that the framers of the Constitution intended to grant Congress power to regulate commerce within the states. His argument rests on an exhaustive study of word usage in the 1780s; he has found that “among the states” at that time normally meant within the states. Crosskey’s work has few followers and many critics. Theories of academic law writers have often presaged past changes in constitutional law, but other factors in the process are now absent. No interests press for change and no judges appear prepared to adopt Crosskey’s views.

The living Constitution

This, then, is the living Constitution, an instrument with ambiguous phrases interpreted by judges responding to the shifting pressures of the times. Yet when all this is said, it must be remembered that the judicial function is far from being crude or

mechanical. Justice Felix Frankfurter recently stressed reconciliation of the demands of the need of stability and the need of change as the core problem of law-making. He wrote that “the most abstruse and delicate piercings of modern mathematics or of chemistry could not achieve a formula for an appropriate apportionment of the relevant components of valor and caution, stability and change, tradition and convenience, in the myriad of instances that solicit the judicial judgment.”

In law as in other fields of human history the past takes on patterns of meaning which are difficult to apply to the present and future. Retrospection is simpler than prediction. This is especially true because a great unknown must be added to an awareness of political and economic pressures, and to a comprehension of constitutional phraseology. The unknown is how new arguments in fresh cases will strike the consciences of the judges. Impressions of the judicial personalities on a court have not brought us very close to predicting the outcome of cases. The judges, given life tenure on the federal courts, are committed to impartiality and they are devoted to reason as the basis of decision-making. These factors may well contribute to a sounder law than other methods that might be devised. ■

IS TITOISM



DIFFERENT?

**Yugoslavia uses Western funds
to perpetuate a grim version of communism**

by Bogdan Raditsa

TEN YEARS have passed since Stalin's dramatic break with Tito. And in spite of recent efforts to heal the breach between Moscow and Belgrade, the two powers remain as far apart as ever.

What, then, are the essential differences between Yugoslav and Soviet Communism which prevent a rapprochement? Has Yugoslav Communism evolved into democratic socialism? Has Tito's regime brought more economic freedom to the peasantry, the labor movement and the consuming public? In sum, has Titoism justified the confidence of its many Western admirers?

Looking back on this decade one must remember that the Yugoslav Communist party, as molded by Tito and his most immediate collaborators, Edward Kardelj, Mosha Pijade and Milovan Djilas,

had been the most subservient follower of Stalin's creed. Firmly committed to the collectivization of the land, it had done its utmost to eradicate the rugged peasant freehold and destroy every trace of free enterprise in the national economy of a rich but backward country. Between 1948 and 1950, Tito's regime tried to remain faithful to the principles of Stalinism, but without Russian subsidy and supervision this proved impossible. The Yugoslav economy was brought to a standstill.

It was around this time that the Yugoslav Communists began to describe the Soviet imperial system as one of ruthless exploitation. These revelations, as told by the heartbroken pupils of Moscow, shed interesting light on the cost of maintaining relations

among "brotherly socialist states." Tractors and industrial machinery bought in the Soviet Union or in Czechoslovakia cost the Yugoslav people 10 to 15 times their worth in foodstuffs and raw materials, and many times what they would have cost in any industrialized capitalist country.

Since 1950, the Yugoslav economy has had to be subsidized by Western, mainly U. S., capitalism. History will ultimately tell another of its strange paradoxes: since 1950, it is American and Western European capitalism that has sustained Yugoslav communism and paid for the experiments of the most fanatic doctrinaires whose only ambition is to make Yugoslavia a Communist show model.

Theoretical position

While refusing to be swallowed by Moscow, the Yugoslav Communists have always denied they were "Titoists" or "national Communists." Their theoretical position has always been that Yugoslav Communism is "orthodox Marxism-Leninism" as opposed to the Stalinist bureaucratism of the USSR. To prevent the degeneration of the "socialist state" into "monopolistic state capitalism," the Yugoslav Communists opened a new era of "reforms" which were supposed to result in the "withering away" of the state.

The first of these major reforms

was the dismantling of the collective farms. Actually, this reform had been imposed by the peasantry itself, especially in Serbia and Croatia where a tradition of peasant proprietorship and political individualism had once prevailed.

During the collectivization era I met peasants who told me that collectivization had made them hate, sabotage and finally abandon the land on which they had lived for centuries. What particularly irritated them was the gratuitous advice of city-bred Communist intelligentsia who presumed to tell them what to do with their land. Unrealistic production quotas could not be met because of a lack of fertilizers and other equipment.

The result of this nightmare was widespread peasant resistance and economic chaos. Before the war, under an uncoordinated free economy, Yugoslavia had exported wheat and meat. Now it was forced to import these items from the United States. Indeed, it was American surpluses that saved the country from starvation and famine.

In 1950, collectivization was abandoned, and more than 85 per cent of the peasants jubilantly left the collectives. For a while their position improved. But discriminatory taxation, the government's rigging of markets and difficulties in obtaining the necessary agricultural equipment continue to

make the peasant's life difficult. Today, 25 per cent of all arable land is again collectivized.

Moreover, the silent war between the peasantry and the state goes on. After 13 years of silence on the subject, Tito returned to the subject of collectivization in a significant speech last October. While acknowledging the "bitter experience of the socialist collectives," Tito urged the peasants to forget the "unfortunate past" and return to the "socialist collectives" or at least seek from them the industrial equipment needed to improve their production. The pressure, it seems, is on again.

What have impressed Western socialist intellectuals even more than the breakup of the collective farms are the Workers' Councils. Announced with a good deal of fanfare in June, 1950, workers' collectives were supposed to lead to "the realization of the old battle cry of the working class movement: Factories for the Workers." Thus what had not been achieved after 40 years of Communism in the USSR (or in Western Socialist countries) was to be accomplished in Yugoslavia.

Paper plan

Here is how the plan works on paper. Worker collectives run their factories after the central government establishes the economic plan for the year ahead. In

the beginning of each year, a committee of workers decides, in collaboration with state management, what and how much is to be produced—and at what price. At the end of the year, they decide how to distribute profits, if any.

Theoretically, the annual plan of each plant management is subject to amendment, approval or rejection of the Workers' Councils. In practice, however, the Workers' Councils cannot reject management directives which, it must not be forgotten, are those of the government. While it is true that the Workers' Councils include a majority of the workers (who are not party members), the all-important committees are elected under conditions which practically rule out the possibility that any but centrally approved candidates will be named. Through a variety of pressures—which often include the UDBA, or secret police—the party inevitably ends up as the winner.

It is when the distribution of profits is discussed at the end of each year that the really critical problems arise. The government invariably asks for the reinvestment of profits in the plant or for the paying of back taxes. The workers' demand for a higher share in the form of wages or badly needed housing and playgrounds cannot be represented in the committees which follow the

line of management, that is, of the party.

Thus the Yugoslav worker has no weapon with which to fight for higher wages or better working conditions. He cannot strike since the Yugoslav penal code regards strikes as "breach of contract" between the state enterprise and the workers. To strike is to commit a crime. Nevertheless, Yugoslavia has lately witnessed two strikes, one in the mining area of Trbovlje in Slovenia and one in the shipyards of Croatia on the Adriatic Sea. The government used armed forces to quell the strikers.

At the time of the Slovenia strike, the Workers' Councils were told bluntly that they were not yet full owners and that their interests must be subordinated to the interests of the community. The time when the state would "wither away" is still very much in the future, they were told.

Rejected demands

It is true that in Croatia and in Slovenia the Workers' Councils have on occasion succeeded in passing on the workers' demands for higher wages, greater autonomy in handling their affairs, bigger bonuses, paid holidays, etc. But this has usually happened only after one of the government's periodic announcements advocating greater decentralization and

more worker autonomy. As soon as the workers have sought to take advantage of these statements, moreover, they have been taken to task for their "wrongly understood independence" and their demands have been quickly rejected.

The Workers' Councils illustrate a characteristic feature of Yugoslav Communist party policy: to grant theoretical rights of self-government and to prevent the exercise of these rights. As Daniel Bell, labor editor of *Fortune* magazine, has observed, "the withering away of the state in Yugoslavia does not seem to prevent the reinforcement of the party."

Nevertheless, the existence of the Workers' Councils has led many Western and American political scientists and economists to believe that they are witnessing the beginning of a trend that will lead to eventual freedom. This is certainly not the view of the Yugoslav workers I have spoken to. In talking with these people I have found that they regard the so-called democracy of the Workers' Councils and the communes as strange tales believed in only by Tito's Western friends.

Individual farms and the few remaining independent businesses are harassed by a discriminatory system of taxation and of government controls over profits and wages. Even more crucial is the

state's control over credit. In Tito's Yugoslavia, as in any other Communist state where accumulation of capital in private hands is impossible, the state's lending power is an important political instrument. In the final analysis, it is the government which decides who is to receive credit.

Ownership and power

The real issue in Yugoslavia, as in all other Communist states, is the question of ownership and power. Milovan Djilas, who more than anyone else in Yugoslavia has contributed to the establishment of the Communist state, admitted in *The New Class* that "power and ownership (in Communism) are almost always in the same hands . . . In Communism, legally, all are equal with respect to material goods. The formal owner is the nation. In reality, because of monopolistic administration, only the narrowest stratum of administration enjoys the rights of ownership." And after having explained how Tito's regime has failed to bring about a more decentralized and "democratic" economy, Djilas concludes: "Clearly, in an unfree society nobody can freely decide anything."

Nor has Titoism achieved its main goal of separating the Communists from Moscow. Wladislaw Gomulka of Poland has publicly condemned Tito as a "revisionist."

The first break with Moscow did not produce the liberation of Yugoslavia from communism and the second did not achieve the liberation of Communist Southeast Europe from Moscow.

Yugoslavia's tragedy is that with the two billion dollars it has obtained from the United States and the considerable financial support of other Western countries, it could have moved ahead socially and economically under a free economic system at a far more rapid pace than it has.

Another tragedy for Yugoslavia will be her future. While Tito has been able to play West against East successfully, this will be impossible for his successors. Neither A. Rankovich nor E. Kardelj, Tito's present lieutenants, have the ability or the reputation to play the same game. It is the party, prone to collaboration with the Soviet Union, that will take the leadership.

Had Tito learned the lesson Djilas did, he would have taken the path of complete separation from Communism. In refusing to free Yugoslavia from the Communist doctrinaires, Tito will leave Yugoslavia in Soviet hands when he passes from the scene. In assisting today in the further communization of his country, Tito is at the same time paving the way for the end of Yugoslavia's independence. ■

Leland Hazard

Vice President and General Counsel,
Pittsburgh Plate Glass Company

Learning to Live With the Machine



Q *Mr. Hazard, our society has been described as a thoroughly business-oriented one. Do you agree with this view?*

A Of course I do. It is a mistake to think that we have any other kind of society. It is precisely because we seek integration around the business model that we do so much thinking about ourselves in terms of business values. A society like ours, which cherishes freedom at all levels of activity, cannot ignore the vast aggregations of machinery and technology upon which our economic institutions rest. The machine—and our relations to it—is therefore of prime importance to us.

Q *Would you say, then, that we have a society which tends to judge itself primarily in terms of economic performance?*

A That is right. During the Middle Ages, the Church claimed to speak for the values of society, and trade and commerce were regulated so as to conform to the values prescribed by the Church. Then came the Puritan preachers who reversed the relative roles of religion and business. Business came to be regarded as an important end in itself, and commercial success was endowed with special spiritual worth. For about 400 years—from the 16th century to the early 20th century—we have seen the pendulum swing from complete subordination of economic interests to complete subordination of noneconomic interests.

Q *Do you think there is a chance that the pendulum might now swing*

away from complete subordination of all values to economic efficiency?

A I believe so, yes. We are in a stage of development in which society is trying very hard to reconcile itself to the machine—to coexist with the machine, so to speak. But we realize that we don't really know how to do this. We are just feeling our way.

Q *And the businessman is no exception to this groping in the dark?*

A Indeed, no. But businessmen must continue to strive for the attainment of two inescapable goals: profitability and perpetuity of the enterprise—abstractions, of course, profits being determined only through time, and time being an abstraction.

Q *But business is more than a mere profit-maximizing institution?*

A I think that businessmen are beginning to accept the fact that the large corporation is, in a sense, a political organism similar in certain respects to the medieval manor. Certainly, today's large corporation is assuming ever-wider responsibilities to stockholders, employees, vendors, customers and the public. These responsibilities involve much more than the individual self-interest postulated by Adam Smith almost 200 years ago.

Q *Can we assume that business' conception of these responsibilities necessarily coincides with the social welfare? After all, business is pursuing these new responsibilities to serve some very specific corporate ends.*

A Well, you have to define what you mean by social welfare. When the council of Nicea was held in 325 A. D. the fate of society seemed to hinge on the nature of the Trinity. Today, this is no longer a vital issue. The sort of problems we get excited about today concerns a nation's capacity to tolerate five million unemployed. The fact of the matter is that we live in a society which has been taught to think in terms of the abundance which the machine can provide.

Q *But this conception of social welfare is a product of the machine and is shared by other groups besides business.*

A Yes. The machine is forcing us to think of ourselves in terms of production statistics, of job and wage rates, per capita investment, the

level of national income and all other economic indicators of welfare. Outside the Western world, there are two billion people who have never known what it was to be overfed; for whom obesity has never been a national problem. These people are looking at our society to see if we have anything to offer them. We have no choice except to convince them that our society works well and that it is a working model for them.

The businessman's place in the social complex

Q *Where, specifically, does the businessman fit into this picture?*

A In as complex an economic world as ours it is no longer adequate to think of the businessman as a fellow with a pack on his back who is engaged only in buying and selling his wares. It just isn't so. The businessman is engaged in almost every facet of the social complex in which we live.

Q *But are there not some facets of economic life in which the businessman can exert more influence than others?*

A You cannot isolate the social responsibilities of businessmen in particular from the political and social responsibilities of the rest of us. Let me give you a specific example. Take the person living on a fixed income during a period of inflation. Now, I think that the businessman has a very definite social responsibility toward that person, but, as soon as I admit that, it must be conceded that the businessman also has the moral right to influence political decisions. Take an example: unless the businessman can influence government to pursue a hard-money policy, we are bound to have inflation. The power of labor unions in our society is such that they can exert an upward pressure on costs. And as long as we have soft money, management will grant the increased wages and pass on the cost in higher prices. This sort of thing, moreover, can go on for a long time while the schoolteachers, the pensioners, the government employees and the unorganized workers are paying the bill through inflation, the robber. Now, business has a very definite responsibility toward these people, but it is a responsibility which, in the final analysis, it must exert by trying to get government to act.

Q Can businesses assume social responsibilities by financing costs which have no relevance to the primary cost of running a business?

A What you are really asking is: To what extent is business able to incur costs which cannot be recovered from customers, plus a profit? My answer is, to no significant extent. Business has no great reservoir of wealth into which it can dip.

Q Why, then, is there so much talk about corporations creating little welfare states of their own?

A When I see in the annual report of a corporation a pious section about how much has been paid out in employee welfare, or how much the corporation has done to create a state of well-being (not the welfare state) for the people dependent upon it, I always feel like picking up the phone and calling the head of the public relations department and telling him: "You should put it this way. We are happy to report that our customers have been willing to buy our product at prices high enough so that all these good things could be done. It is the customers who should take the bow; we in management have no power to do these things. We have no independent source of income to create the state of welfare described in this annual report. If the customers had not been willing to pay a high enough price for our product, none of these good things could have been undertaken."

Q But no special stigma is attached to the manufacturer or businessman who doesn't do these things?

A Of course not. He simply guessed that his customers would not pay a price high enough to permit these social benefits. Now, he may have made a mistake in judgment; perhaps it would have been smarter to try for a price high enough to permit some of the welfare projects undertaken by his competitors. But this is not a moral question; it is really a question of economic and social judgments.

Q In other words, there is nothing about mid-20th-century business that gives the businessman a wider scope for the exercise of social responsibilities than was enjoyed by his 19th-century predecessor?

A I don't think the difference is very great. The margin between success and failure in business is always very narrow. Take automobiles. Where is the Winton, the Peerless, the Stanley Steamer, the

Stutz Bearcat? They rode high at one time, but today they are all gone in the limbo of high costs.

Q *Do you believe that these margins are diminishing?*

A Yes I do. Historically, we have had ample margins to work with, for we had a virgin continent with apparently inexhaustible natural resources. But today those margins are diminishing rapidly, although an environment of monetary inflation creates the illusion that this spiral of prosperity can go on and on. Rising wage costs press so hard on our technology that only government can, through easy-money policies, supply what it takes to prevent unemployment. At the same time the costs of those who do not have the power to force their incomes upward are increasing rapidly, although the survival of our society in many cases depends upon the well-being of precisely these people. At the same time, the costs of national security are increasing at such a rapid pace that our very ability to defend ourselves will diminish. This is not the way the Communists put it, but they are not foolish. They have some understanding of our dilemma.

Excess manpower creates social and economic problems

Q *Well, how do you think we can resolve this dilemma?*

A I think that what is indicated is conservation on a number of fronts. In the first place, we have too much manpower clustered about our machines; on the industrial front we are probably overmanned by 10 or 15 per cent. Moreover, this excess manpower creates social as well as economic problems. Idle people tend to become sick people so that you are confronted with both the social costs of idleness and of sickness.

Q *How can we siphon off from the machine this excess manpower which creates nonproductive costs?*

A Business and union leadership working together could, of course, cooperate to prevent the overmanning of machines. But I don't have much confidence in that occurring on a voluntary basis. I think that government has to step in with a major retraining program which would take out of industry those persons who might be better occupied in the kind of nonproduction services which contribute greatly to our

general welfare. Such a program of conservation in a time of plenty would enable us to devote more energies to the fundamental problem of learning how best to coexist with the machine. By renewing emphasis on human activities of an apparently nonproduction nature, moreover, we would learn that even such activity often has very important economic consequences.

Q Do you think that the businessman would support such a program?

A Let me put it this way. I think that our schools are today training business leaders who will not oppose government programs which seek to bring about a society with better and more conservative values.

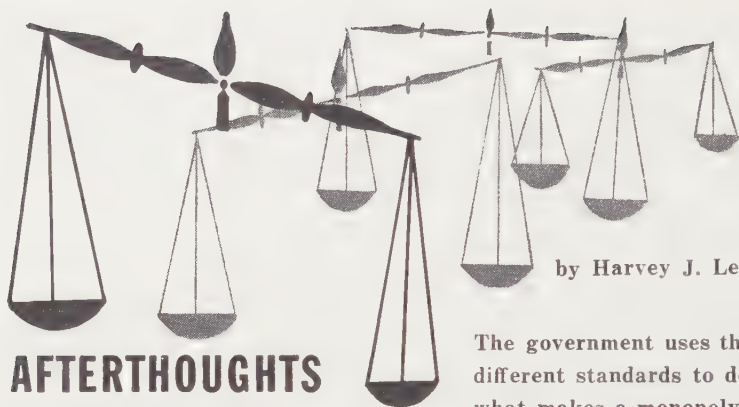
Q But that is still in the future.

A I am afraid so. Businessmen are still divided on these questions. If the Federal Reserve, in collaboration with the Treasury and the Joint Council of Economic Advisers, were to decide on a really hard-money policy, this could create unemployment of six or seven million people. Now, if the government were then to decide to accept this unpalatable fact as unavoidable and embark upon a comprehensive retraining program of the kind I have described, such drastic action would find today's businessmen divided. Businessmen talk about hard money, but they are unwilling to face its consequences. For the cost of hard money would be a certain amount of unemployment, and the costs of retraining these unemployed in the manner which I have suggested would have to be met through taxation if we wish to retain the benefits of a hard-money policy. Now, I would be willing to support such a program, but I doubt whether all businessmen would feel the same way.

Q Could we stand tax increases necessary to finance such a program?

A I think so. They might be cheaper than inflation. I think we could stand, at least for a time, the taxation required for the kind of retraining job I have outlined. Moreover, I have a faith—and it is only that, for I cannot substantiate it with evidence—that by re-emphasizing the importance of nonmaterial activities we would indirectly be creating new economic values in economic areas we have not previously explored.

Q Thank you, Mr. Hazard. ■



by Harvey J. Levin

AFTERTHOUGHTS ON ANTITRUST

The government uses three different standards to decide what makes a monopoly—but a fourth might be necessary

■ ECONOMISTS and policy-makers have been using three different standards in deciding how to cope with monopoly power. Contradictions which result from a clash of these yardsticks have caused confusion and inconsistency and have left businessmen uncertain as to how they will be judged in specific cases.

The three most commonly accepted standards are "market structure," "business conduct" and "market performance." In the first case, the emphasis is on "structural" factors like the number and size of buyers and sellers in the market, the relative ease of setting up a new business, the degree of product differentiation and the ratio of fixed to variable costs at different outputs. All but one of these characteristics define

the basic steel industry as having the type of organization that encourages restrictive practices. Steel is not a differentiated product that creates customer loyalty, but the great fixed costs are inhospitable to new entrants and keep the number of sellers at a minimum.

The second standard places the responsibility for abuses not on the economic environment but on the business leaders themselves. It does not ask *why* a firm acts the way it does, but *whether* it is actually taking advantage of its position to lessen competition.

These first two standards, market structure and business conduct, place the field of inquiry in a narrow focus by refusing to examine all the results of monopolistic practices possible. The third

standard, emphasizing performance in the market, would sometimes accept operations condemned by the other yardsticks. Grounds for acquittal are a company's or industry's progressiveness, efficiency and stability.

Antitrust actions have frequently alternated between the first two standards, depending on the details of the cases concerned and the court philosophy of the moment. In 1948, for example, the court applied only the second standard against U.S. Steel, but insisted on major changes based on both the first and second standards in the case of Paramount Pictures.

The steel industry was not required to change its structure so that the existence of more producers would reduce the chances for monopolistic practices. The producers had been charging freight rates that had been equalized among the various customers no matter how distant or close they were; it was enough for the courts to outlaw such practices. The courts thus ignored the fact that the industry structure made such practices easily possible.

The Paramount Pictures decision outlawed restrictive practices like block-booking, which forced distributors to take unprofitable as well as profitable films. But additionally the decision ended the vertical integration between

movie producers, distributors and exhibitors. The principle behind this application of the "structural" standard was that such restrictive practices would inevitably recur, with bad effects on industry performance, unless the structure itself was changed.

Congress has since strengthened antitrust action in terms of market structure by a 1950 amendment to the Clayton Act of 1914. This amendment permits preventive action against planned mergers, greatly easing present efforts to maintain competition. Our older policy of breaking up established mergers is not only politically unpopular but also liable to be more disruptive than the new approach.

One basic uncertainty remains in the matter of structure and conduct. Many economists believe that the government will always have restrictive practices to police. They contend that the character of our economy has favored the existence of important business areas where the limited number of sellers permits considerable discretion. The leaders of these firms continue to have much individual responsibility in deciding whether they will indulge in restrictive practices.

This point of view insists that comparable situations can give rise to very different courses of action depending on personalities

and the character of the decision-making. Thus American oligopolists, unlike those in many other countries, tend to restrain unlimited price increases during inflations for fear of public criticism.

An emphasis on individual responsibility is sensible, particularly in view of another sanction. Big companies fear the unsavory publicity of long litigation and the chance that they will be branded with an unpleasant stigma. Such apprehensions have as much influence on conduct as the possibility of retaliatory action by competitors.

Individual discretion

A recent study, covering anti-trust decisions in 20 industries, further suggests the importance of individual discretion. It investigated 42 cases of dissolution, divorcement and divestitures, and 17 cases which the government had lost. The study found that in 25 of the government victories the changes in business structure and conduct were little different from the changes after the government defeats.

I believe that both standards are mutually helpful, especially now that proposed mergers can be screened. It is true that different business structures can show a great variation in the intensity of restrictive practices.

But practices that *reflect* structure often *bolster* it by blocking the entry of new firms whose existence would alter the structure itself. A compromise approach using both standards could extract a more meaningful characterization of a given business situation by studying structure and conduct in terms of their effects upon each other. For instance, the courts stopped American Can from protecting its dominant position with several restrictive practices in 1950. As a consequence, the company was challenged more effectively by its major rival thereafter.

If the first two standards are often supplementary, the third criterion, market performance, acts in a contrary sense. It is frequently cited to justify serious departures from competitive structure and behavior. We might study the question in reference to firms like Du Pont, American Cyanamid, Dow Chemicals or Union Carbide. Suppose a structuralist policy compelled these firms to license all their patents and sell off substantial properties used in the production of certain items. This would significantly reduce their power to coerce rivals and customers as well as to restrict the entry of new competitors. But might it not also reduce their production economies, and their capabilities and incentives for re-

search and innovation? Would these firms then be able to fill government defense orders economically, swiftly and conveniently? Or would the gains in terms of equal economic opportunity be bought at the expense of national security, economic efficiency and growth?

Similar questions occur in the case of the oil industry. Changes in the present output controls might reduce oil prices and profits in the customer's interest. But they might also undermine our conservation program and have ill effects on security as well as the long-term consumer interest.

Values and research

Final judgments on the conflict of standards will depend on community values and economic research. The people must decide on the relative weight to be given security considerations and the desirability for fair economic opportunity, and so on. Economists must remedy this still inadequate knowledge about the relation of vigorous competition to efficient military procurement, industrial research and innovation, optimum rates of natural resource use, the survival of independent retailers, the stability and growth of our newer regulated industries, and areas like coal and agriculture.

Much of our discontent over the inconsistencies in our present an-

titrust policy may be due to the fact that, whatever our approach, we have simply expected too much from competitive markets as mechanisms to reconcile a variety of social goals. Action outside of the competitive sphere has long been used to implement national security. Few students of the subject would rely wholly on competition and monetary policy to reconcile full employment and price stability. Those who emphasize equitable income distribution place more dependence on tax policy. We have also seen the relaxation of antitrust action in war emergency.

The assumptions about the value of competitive markets in guaranteeing an "optimum rate of growth" are also being studied with more skepticism. Economists are trying to measure comparative growth rates in competitive and monopolistic industries. The results may change much of our thinking on the subject. In any case the limitations of competition are accepted as implicit by those who suggest such institutional innovations as a National Monetary Commission, a U.S. Department of Science and Technology, and National Institutes of Scientific Research.

A new standard for antitrust may be needed to deal with the larger questions. This fourth criterion, which might be called

the "national interest" standard, would judge business structure and behavior as "enabling factors" in terms of the nation's basic economic policies. Thus, the Joint Economic Committee's recent compendium on "The Relationship of Prices to Economic Stability and Growth" placed antitrust policy within this broader context. The Committee's approach gave weight to three significant propositions that have gained support in recent years. They are: (1) market structure and behavior can be altered only within narrow limits in the present political climate, even if we knew more than we do about how they should be changed; (2) structure and behavior are enabling factors at best and impediments at worst in the pursuit of national goals; and (3) positive, "energizing" forces to implement these goals must come from other agencies and mechanisms, some still to be created.

The attainment of the objectives suggested by the national interest standard requires that the national agencies charged with the responsibility for economic growth, defense and stability be carefully briefed on what we know and do not know about business practices. Antitrust agencies, outside research organizations and independent scholars can be helpful, perhaps coordi-

nated by a member of the Council of Economic Advisers. A National Economic Council [see *Making Economic Policy Work*, CHALLENGE, October, 1958] might contribute valuably. If business structure and behavior were to present impossible impediments to key national policies, the public might then give more consistent support to an effort to curb the private power in the market place.

A "national interest" formulation might seem to demote antitrust. Such a standard requires that we look beyond the immediately relevant business area for means to improve the over-all performance of the economy. But the real implication is positive and not at all negative. It would generalize a challenge that has already been accepted during the past decade in the field of economic stabilization. Both the domestic and international phases of American policy demand an increasing amount of frankly accepted responsibility. If competitive character is the standard, proponents of social measures must carry a heavy burden of proof. They would not be so hampered if the value of their proposals were judged against a national interest standard. Nonetheless, antitrust would continue to have major importance in any program based on broad concern for the nation's goals. ■

How much can our society really benefit from the increasing "social awareness" of business?



Ideal and Ideology in Business

by Douglas F. Dowd

■ THIS HAS BEEN, and remains, a business civilization. The major trends in our society have had their origins in the business outlook, business needs and business aspirations. Today, in the ideology and behavior of the business community, we may detect a growing conflict between the ideal and the real which contains a promise and, more likely, a threat.

We have seen the rise of new concepts of the professionalization of management, the organization man and the social service function of business. These are somewhat different names for what is basically the same development. This development, the presumably increasing social responsibility of the business enterprise, has led many commentators,

most of them well meaning and well informed, to breathe a sigh of social relief. For the new state of affairs means to them that one need no longer fear that the power of organized business will be used in an antisocial manner.

The facts of the development confront us every day—in the speeches of businessmen, advertising, business schools, popular literature and the entertainment media. Only a superficial reading of the facts can lead to the optimistic reviews cited above. Present probabilities would seem to indicate that our transition is actually one of institutional deterioration, little of a positive sort growing alongside it.

In the early years of the 19th century this country began to

emerge as a new and powerful society. Its philosophy emphasized individualism—politically, economically, socially and, for the most part, religiously. It was a forceful, and in many cases forced, application of what has come to be called “the Protestant Ethic”—an outlook emphasizing the importance of the individual, hard work, thrift and competition.

Philosophy of individualism

Those who possessed and applied the ideology most completely and wholeheartedly were the businessmen of America—merchants, industrialists, financiers and farmers. In practice, subscription to this code meant devotion to the job, to the job of making money; all else became secondary. As for the many who fell by the wayside, or did not even get on the path, that was their fault. Out of it all came a rapidly expanding economy, but one whose technology, markets and institutions came increasingly into conflict with the practical application of an unvarnished philosophy of individualism.

Among the first of the important manifestations of this conflict was the growth of the giant corporation. This was a natural and a necessary development in our economy, if the industrial technique, our vast markets and business profitability were to

mesh. The giant corporation was an outcome, usually, of the merging of many smaller business firms; its emergence signified the blunting or the disappearance of the main strength of “the invisible hand,” to wit, competition. Firms continued in a rival relationship, for example, U. S. Steel and Bethlehem Steel—but this rivalry carried with it no necessary benefits for the people at large. It is worth quoting John Moody, a leading spokesman for the business world around the turn of the century:

“Competition is keener than ever today, but it is of course carried on a larger plane . . . in acquiring and dominating the sources of supply and the raw materials; in controlling shipping rights of way; in securing exclusive benefits, rebates on large shipments, beneficial legislation . . .”

In the period which Moody described approvingly, 445 industrial, public utility and transportation trusts were formed, representing consolidations of over 8,600 originally independent companies. It was in this period, 50 years ago, that what Veblen called the “captain of industry” was replaced by what he called the “captain of finance.” At the present time, the captain of finance is being replaced by the “organization man.”

The captain of industry sought

profits through innovation, energy, efficiency and ruthless competition. The goal of the captain of finance remained profits, but his techniques centered on those which would eliminate competition. Those competitors who lived and let live, of course, were businessmen. The profits were extracted from a controlled market.

The leaders of today's corporate empires still seek, and make, large profits; but they couch their rhetoric increasingly in terms of social service. What is different? Precisely this: it has now become necessary for the large corporations to make their main efforts in two different but related kinds of selling. They have to sell themselves as well as their goods. They adopt the position that their primary function is to promote the material welfare of an individualistic society. To sell their goods profitably, they must create artificial "needs" by the deliberate psychological plumbing of usually covert motivations.

Cumulative function

The most frequently heard explanation of "the new managerialism" runs in terms of the educational training of the present group of executives. These, the argument goes, have attended the business school of some large university, where they have been instilled with the values of pro-

fessionalized management. Since these people are gaining control of the hiring process, the professionalization of management—and its corollary, the social service function of business enterprise—is becoming a cumulative one.

There is no doubt that the business schools teach an outlook different from the "Protestant Ethic." But that is not the principal reason for the current public relations position of the large corporation. One development is to be found in the corporate world itself, a world of powerful firms. Not only are they unable to hide their power, they are inclined—cautiously, in most cases—to display it. Americans love bigness as much or perhaps more than they fear it. But they need to be reassured that existing business power is used benignly. They are so assured.

But the last few decades have also witnessed other developments bearing on this question. First, trade unionism has grown from a slight movement to a power to be reckoned with. Today labor possesses increasingly businesslike leaders, able to appeal to a large segment of the people. Secondly, there was the emergence of government as a social force in the depression of the Thirties. The business community has found itself faced with significant competition as a power group in our

society. Its previous experience with this kind of thing was in the period of populism. Then it was able to put down the threat by momentum and sheer power; nowadays there are few in the business community who believe that their power is great enough to repeat that performance.

Nor is it necessary. Business has found that it can make its historically highest profits in the period in which its behavior has been most circumspect. It also finds itself in the position where the very behavior which provided it with its present powers must be relegated to a boisterous past. Rugged individualism is something which is seldom practiced, and scarcely ever preached, in the big business world today. But another, and I believe more menacing, kind of individualism is practiced, while being clothed in the new rhetoric. The principal difference between the rugged individualist of yore and the corporation manager of today is that the latter seeks the advancement of the group, the "corporate family," that is, of the corporation itself—in the name of society. The belief is that what's good for a given corporation *is* good for society. The belief is sincerely held—which makes it all the more dangerous.

But what's good for a corporation *may not* be good for society,

and what's harmful for the firm—from its point of view—*may* be good for society. Automobile companies, for example, find it advantageous for purchasers to turn in their "old" cars every two or three years. For most people this means a heightened and invidious materialism, continuous debt, working harder (around 10 per cent of workers in manufacturing now hold two "full-time" jobs), and a decreased ability to enjoy the leisure and goods they possess. Thus another of the leading tenets of the Protestant Ethic—thrift—has been quietly violated. It also means that alternative uses for our resources and productive capacity, for example, better schools and medical care, are economically, psychologically and politically farther out of reach.

A more dangerous problem associated with the social service rhetoric is that it perverts the idealism of the people who adopt it and that it increases delegation of political power and social influence to groups who would tend to use that power undesirably.

The good society

The most easily measured achievement of America may be its material advances. The less tangible achievements, or, more accurately, goals, of America in the political and social spheres mean more to others and, I sus-

pect, to us. We are a people who have always laid great store by the ideals of decency and fairness, in short, the good society for all. We have been materialistic, crassly so; we have oppressed large groups within our borders, and still do. But the image we have had of ourselves does not allow us to rest easy with these matters. We like to think of ourselves as performing a social service, as ultimately serving humanity.

The danger of the myth of the corporation as social servant is that it drains the political and social energies and emotions of the people, particularly of the most articulate and intelligent people, into activities which are likely to defeat those energies and emotions. The only function for which the large corporation is properly designed in our kind of economy is the large-scale production of goods and services. It is not an institution designed for the function of influencing or controlling the political and social life of the nation. But, in the present drift of affairs, the character and power of the large corporation give it more opportunity to do what it should not do.

Not much is heard these days of the Protestant Ethic, except in

college classrooms and, indirectly, in the institutional advertising of the giant corporation. The future of this society could be contemplated less nervously if businessmen would and could both practice and preach the ethic of competition and individual advancement. The social problems which would develop could be met by people formed into social and political groups with the legitimate aim of alleviating those problems. If a conflict arises between the needs of society and the corporate aim of continuing profitability, can one believe that corporate management will opt in favor of the needs of society? Such management would, or should, be relieved of its position.

None of us would consciously decide to give the giant corporation the mandate to frame the values or dictate the policies of our nation. Yet we are tempted to do so because the individual is relieved of what he often looks upon as an irritating or frustrating responsibility. Indeed, if present trends continue, we will have made such a decision by default. We will then have made a transition to a society in which, in the name of individualism, individualism will have been lost. ■

Salt of the Earth

CENTURIES AGO salt was a luxury for which adventurers risked their lives and kings sold their jewels. Today in America more salt is sprinkled on slippery highways than on food.



**the new
waistline**

Despite its violent acrobatics of the past year, the economy was entering 1959 in the character of a flabby giant. It was fundamentally sound but its breathing was rather short, and its excess capacity in men and machines remained an element of physical and psychological discomfort.

**idle
statistics**

Unemployment was the major weakness, although the situation had achieved moderate improvement toward the end of 1958. The number of jobless held at 3.8 million from mid-October to mid-November, resisting the seasonal tendency to rise. Seasonally adjusted, however, it was 5.9 per cent of the labor force, and employment fell 700,000 to 64.7 million in the same month period.

$x = y$

The manufacturing industries had made up two-thirds of their employment losses, while the manufacturing working week rose to almost 40 hours per employee—equal to the level of a year ago. Improved productivity was, however, much more responsible for production rises than additions to the work force. Ewan Clague, U.S. Labor Department Commissioner of Labor Statistics, pointed to productivity as the key to the employment problem in 1959. He said the economy would need to raise its gross national product by 35 to 40 billion dollars—to 475 or 480 billions—in order to absorb the jobless. Other experts, however,

were independently predicting that the economy would do just that in 1959. If they are right, they have offered the solution just when Clague set up the mathematics of the problem.

blocked accounts

Businessmen were opening limited accounts of optimism, as they gave over economic leadership to the government and the consumers. Many companies were announcing that they expected sales increases of 10 to 15 per cent, but harder questions bent their answers into a greater downward flexibility. In any case their plans were based not on dynamic leadership from the business community itself but on the awaited effects from consumer purchases, and an increase of eight to 10 billion dollars in federal and state government expenditures.

slow transport

Durable goods were still the problem child of pro-duction. In the earlier part of the recovery, durables had expanded more than nondurables, but this was to make up for the much greater fall in output, 12 per cent from the previous peak to the trough of the last recession. Durable production was slowing down now while nondurables had risen above the prerecession peak by mid-autumn. Six out of 20 major manufacturing industries who are included in the industrial production index reported exceeding the 1956-57 peaks; five were in nondurables, chemicals, paper, food, tobacco and apparel. The only durable on the list was furniture, which reflects the sociological element more than it does the industrial. Some durable lines like machinery and transportation equipment had achieved only minor recoveries from the recession trough, while automobiles still remained a major question which would not be answered until the spring sales figures had taken form.

le roi s'amuse

The Survey Research Center of the University of Michigan reports a heartening rise in consumer confidence since last spring. The consumers said they were

better off, and they were *feeling* better off. But their attitude remained carefully controlled; they refused to forget the recession and they were withholding purchases of things which they regarded as excessively high priced. Their tastes were shifting a little in a way that would give less comfort to durable goods manufacturers than to economists like John Kenneth Galbraith, who has been complaining about American materialism. The consumers were spending more on culture and recreation and less on household appliances and television sets. Music and sporting goods stores reported excellent sales, while the appliances were down eight per cent from last year's fall period.

equity of
it all

The stock market was operating on a broad margin of optimism. It recovered quickly from a sudden selloff that caused a momentary price break, and observers were predicting that the Dow-Jones index would break 600 in the next few months. The bulls were battenning on expectations of a 25-per-cent profit rise and a 10- to 15-per-cent increase in dividends this year. The winter's tale began well on Wall Street.

* * *

the 86th

WASHINGTON—A stimulating air of expectancy already hovers about this city as members of the 86th Congress begin to arrive. Already one gets the feeling from initial introductions and conversations that the new men, and their more experienced colleagues, will represent a new legislative outlook and constitute an enterprising, yet level-headed Congress. At first glance one might be inclined to believe that this will be a free-spending group of legislators, but quite the opposite may prove to be the case. In spite of the heavy Democratic majorities, this Congress is more likely to reflect the Eisenhower domestic economic doctrines, particularly where inflation is concerned, than any Congress the President has had since 1952. But on foreign policy Congress and the Administration will

have fundamental differences, not as to goals but as to procedures.

**the
issue**

Senator Hubert Humphrey's talk with Khrushchev, and the increasing prestige the Senator has enjoyed since that talk, has made a profound impression upon both the Administration and other Democratic leaders. With the domestic economy on the mend, albeit slowly, foreign policy stands to be *the issue* which Democratic and Republican thinkers and politicians will pick on for "agonizing reappraisal" and "imaginative concepts."

**triple
spotlight**

There are three major areas of foreign policy on which Republican and Democratic leaders will concentrate, spearheaded by party hopefuls for the 1960 election. A thorough review of our China policy is in the making, but this will be more in the nature of preparing our case before the United Nations next spring than to find rationalizations for recognizing Communist China. There is more room for imaginative reappraisals in our policies regarding Eastern Europe. If Khrushchev stops rattling the saber, there is a real possibility for serious discussion between East and West not only about Berlin, but about Germany as a whole and eventually about all Central and Eastern Europe. Finally, foreign policy leaders will tackle the Middle East again. The pro-Communist drift in Iraq might have chastened Egypt's Nasser sufficiently to open the way for a general stabilizing influence by the United States.

**automation
again**

On the domestic scene, there is growing sentiment for a Congressional study (among other studies, such as a revision of the tax code and of our banking system) of the persisting high rate of unemployment. The effects of automation and of other developments which permit a high rate of production while decreasing job opportunities will come under serious study if unemployment remains at about four million by March. ■



by John D. Black

THE COSTS OF FARM 'PROSPERITY'

Agricultural subsidies fail to give the farmer security while imposing heavy burdens on the taxpayer

■ FARM OPERATORS had a net income of 11.8 billion dollars in 1957; the government paid out a sum nearly half that size in various farm programs.

These simple proportions indicate the character of our farm problem more eloquently than all the profusion of agricultural statistics. It is easy to sow confusion with tables listing billions of bushels of given farm products, millions and billions of dollars for various special programs, and millions of acres in and out of crop restriction plans. All these figures illustrate various areas of our agricultural problem, but the extent of governmental aid remains the prime integer in the national calculus.

It is, in any case, at variance

with the American philosophy that everyone should pay his own way. It also suggests a perhaps dangerous fragility in a major economic sector. Is the situation as bad as the aid figure might indicate?

The comparatively good reports about farm revenues recently should not make us forget that they are on a much lower level than they were a few years ago. When we add 1.6 billion dollars in farm wages to the 11.8-billion operators' incomes, we get a figure of 13.4 billions for aggregate net farm income in 1957. This is but two-thirds of the figure for 1948-49. Farmers have not forgotten the events of 1949, when the aggregate income-operators' net revenues plus workers' wages—

fell from 19.8 to 14.7 billion dollars in a single year. The recovery during the Korean war, when aggregate income rose to 17.7 billions in 1951-52, was followed by another discouraging slump. The fluctuations do not of themselves prove the case for aid, but we can agree that they are too violent for a farmer's personal as well as an economist's theoretical peace of mind.

Despite price and income drops, farm output has continued to rise steadily and sharply, expanding 12 per cent from 1950 to 1955, after a 25-per cent rise during the decade before that. A large backlog of newly developed agricultural technology, unused because of the depression, produced an explosive output increase in response to reviving demand. The war and a more vigorous economic development have continually added more technological innovations, which have not yet shown signs of lagging.

If aggregate farm income has suffered occasionally dismal slumps, other factors have modified the effect on the individual farmer. The number of farms counted by the census decreased from 6,079,000 in 1940 to 4,782,000 in 1954, with a reduction of 600,000 in the last four years of this period. The decline figure was magnified somewhat, particularly before 1950, by a change in the

Census Bureau's definition of a farm, but the true reduction is nevertheless enormous. The number of "workers mainly employed in agriculture" declined from 9,540,000 to 6,583,000, or 34 per cent, from 1940 to 1954. These declines are continuing into the present. If aggregate net income fell by a third since 1948, the net-income decline per farm and per worker, because of the lower number of sharers in this income, fell only 10 to 15 per cent. We must remember, furthermore, that this is down from the peak of agriculture's postwar boom.

"Commercial" farms

The big farmers are receiving a very large proportion of government aid, and they are getting bigger year after year. Farm real estate prices have risen by 50 per cent since 1950 in response to a demand from those wanting to increase their acreage. Many commercial farms need more machinery in order to keep their costs down and more land or livestock to make the most efficient use of the equipment. By 1949, only 2,100,000 farms—38 per cent of the total—were producing 88 per cent of farm products sold from farms. This group, classified under the census as Classes I to IV "commercial" farms, increased its proportionate production by another three per cent by 1954.

This forced growth, reflected in the inflationary farm real estate prices, is a highly vulnerable element in our shaky agricultural structure.

What is the character of governmental aid? The Department of Agriculture has carefully assembled cost data under the general head, "Realized Costs of Agricultural and Related Programs." The term means "net costs actually incurred to date" and does not include estimated losses on current transactions that have not yet been entered on the Department's books. The realized costs for the fiscal year 1957, ending in June of that year, were 4.4 billion dollars, but other costs not applied to the fiscal 1957 budget would have brought the actual cost figure up considerably. Experts have thus concluded that total aid costs—the 4.4 billions plus unentered costs—amounted to about half of the 11.8 billions of farm operators' income in 1957.

Swift growth

The growth of realized costs to the 4.4-billion figure has been swift; the totals were three billion dollars for fiscal 1956 and 2.5 billions the year before. We can expect to see further rises as long as larger and larger volumes of surplus farm products are handled in the various programs, and as long as measures like the Soil

Bank Program are increasingly applied to take land out of production. Indeed, net realized costs were eight per cent higher in the first half of fiscal 1958 than in the same period of fiscal 1957.

Of the 4.4 billions in fiscal 1957, 3.2 billion dollars went into price supports. The rest covered a variety of operations ranging from a foreign aid program that bought 366 million dollars' worth of farm products—to research, conservation and rural electrification. Some of these expenditures, however justified they may be, are difficult to characterize in terms of agricultural policy. Thus, the foreign aid program is an element in our economic diplomacy, although it also distresses agricultural producer nations who feel they have lost international markets.

What is the connection between governmental aid and farm prosperity? There can be little question that the half billion dollars in direct annual payments to agriculture did add to farm receipts. That part of the sum paid through the Soil Bank was not, however, a net addition because it only compensated for income that the farmer would have received from land brought into the bank.

Varied effects

The effect of other forms of payment has varied from case to case. The half-billion-dollar cotton

program has kept the price of cotton at 37 to 38 cents per pound and 90 per cent of parity in the last two years. But it can be argued that a lower price and a resultant greater sales volume might have paid the producers nearly as much even in the short run. Moreover, a lower price would not have lost so much of the domestic market to artificial fibers and so much of the export market to foreign cotton producers. It is entirely conceivable that a free cotton-growing industry could compete successfully with the whole fiber world, a situation that is not the case today.

Uneconomic element

Similarly doubtful results characterize the wheat program, also of a half-billion-dollar magnitude. The government has been supporting the price at \$2.40 per bushel recently, about 70 per cent of parity. If the program has meant immediate cash to wheat growers, it ignores an important development affecting the farmers' future. It encourages wheat-growing although demand calls for a shift from food grains to feed grains and livestock; it thus perpetuates and extends an uneconomic structural element in a major farm region.

The tobacco program raises a similar question in regard to much poorer farmers. Tobacco

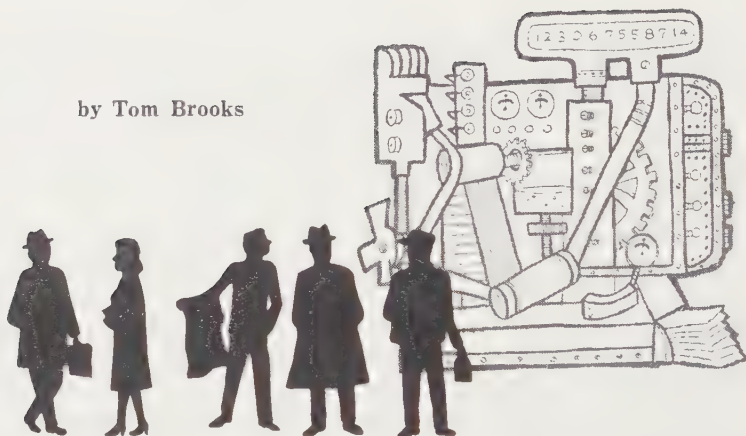
growers with quotas of one or two acres make up a surprising percentage of commercial farms with annual sales under 2,500 dollars. Do we want to subsidize the perpetuation of low-income farming?

A special situation

We can concede that farming represents a special situation in the economy, that we cannot afford to permit the existence of a rural depression. But there is no question that governmental aid is the basis of a large part of farm prosperity and that it is, at best, a short-term expedient. Altogether too much of the aid has the effect of delaying needed adjustments. We have been giving our farm people larger immediate returns, perhaps as much as 500 dollars per farm in 1957. We have failed to help them in what they should be doing to earn a few thousand dollars more per farm five and ten years hence.

Short-term palliatives, because they postpone necessary solutions, have the effect of intensifying the swings in the boom-bust farm cycle. We still lack a national policy that accepts all the magnitudes of the problem. Until we develop a proper balance between present sacrifice and future stability, we shall be forced to continue the desperate procedure of replacing worn-out expedients with newer stopgaps. ■

by Tom Brooks



What's to become of the unskilled?

They will still be with us—in spite of automation

■ IS THE unskilled worker becoming obsolete? Technological changes in our economy put a premium on skill, and automation displaces many routine jobs. The Department of Labor, the National Manpower Council and the President all emphasize the need for more skilled workers, technicians and professionals.

Before we write off the unskilled, however, we ought to ask who he is and what he does. We may find that he is more persistent and essential than the prognosticators think.

The United States has been a high-wage economy; we have suffered from a chronic shortage of labor which drove us toward swift capitalization. Indeed, much of

American economic history can be seen as a contest between the employer of cheap immigrant labor and that immigrant labor as it learned the skills enabling it to command a higher price for its work. This margin of exploitation of the relatively unskilled immigrant was, perhaps, essential to the tremendous industrial expansion of the late 1800s and the early decades of this country—a period which happily coincided with the greatest waves of immigration.

In 1910, unskilled industrial laborers—found chiefly in manufacturing, transportation and construction—outnumbered the total of skilled workers and foremen by about one million. In 1957, there

were 8.6 million skilled workers and foremen to 3.6 million unskilled workers. In 1910, nonfarm laborers comprised 14.7 per cent of the labor force; in 1957, such laborers were only six per cent. A major shift, from unskilled categories to semiskilled, occurred as more and more machinery was introduced in both farming and manufacturing. The semiskilled factory worker group has today expanded its 1910 proportion by 50 per cent, and the clerical and sales group has doubled. The latter development reflects the second great change—the growth of service industries and white collar work.

It is tempting, therefore, to dismiss the unskilled. But before we do so, we ought to look at the problem of definition. Who are the unskilled in today's work force?

The problem can best be illustrated by comparison: a U.S. farm boy of 14 driving a tractor is considered an unskilled worker because his skill is part of his cultural milieu. In the Soviet Union, however, a tractor driver is classified as a highly skilled worker. Classification is frequently no more than a game in nomenclature. Mineworkers, once classified as laborers, are today graded as skilled workers although their skill level has not changed appreciably. The machinists' occupation is traditionally viewed as skilled.

But a Bureau of Labor Statistics study indicates that perhaps a majority could be described as semiskilled on the basis of functions performed.

How many clerical and sales people belong in the unskilled category? Is a file clerk or a clerk-typist an unskilled or semiskilled worker? At a time when education was at a premium, a file clerk was certainly a semiskilled, if not a skilled, worker. But today, with the rise of educational levels, the job has lost its comparative rating. I would calculate that the number of unskilled is much greater—perhaps by a multiple of three—than the Census Bureau figure of 3.6 million. The Bureau's classification standards are arbitrary, and the low incomes of many workers argue that the economy places a low premium on their work contribution.

To what extent can we correlate income with skill? Frequently, jobs of a low order of skill pay very well, if they are hazardous or extremely disagreeable. The unions have furthermore narrowed the gap between the unskilled, semiskilled and skilled. Female teachers, in a highly skilled occupation, had a median income in 1956 of 3,621 dollars—not exhilaratingly higher than the unskilled male worker's 2,844 dollars. But male teachers were better off at 4,317 dollars a year. In compar-

ison, male clerical workers had a median income of 4,263 dollars; sales workers, 4,363 dollars; foremen and craftsmen, 4,697 dollars; and semiskilled operatives, a median income of 3,972 dollars. Although one can no longer easily say cheap equals unskilled, those who earn low incomes have a relatively low order of skill within their fields.

Where are they?

Where are the unskilled? They are, for the most part, in manufacturing and such nonmanufacturing industries as construction, transportation, and the wholesale and retail trades. Within durable-goods manufacturing, the unskilled are found particularly in the primary metal industries, where they work in blast furnaces, steel works and rolling mills. Much of this is heavy work. The unskilled are much less important in the fabricated metals, although they are still numerous in motor vehicles and equipment. In nondurables, the unskilled are found in food and kindred products, textile mill products, paper and allied products, and in chemicals.

Mobility in our society is a key to change and, significantly, the unskilled are highly mobile. Most people start as unskilled workers and learn their skills as they gain work experience. The young work-

er has the widest choices. The older worker, however, finds his mobility limited to a mere turnover in jobs of the same order of skill. Automation may offer the older hand new opportunities for pleasanter work and higher pay.

The pattern of job shifts varies with each occupational group. A Census Bureau survey found that about two-thirds of all job shifts made by professionals and craftsmen were to similar jobs. But most job shifts made by nonfarm laborers involved a change in occupation and industry.

Long-run shift

In view of the long-run shift from industrial occupations to service industries, it would be interesting to know how many unskilled workers make the change-over. It has been suggested that new entrants into the labor market now tend to find jobs in the secondary and tertiary industries instead of going directly into primary manufacturing. But this is not certain. It is perhaps more common for the industrial worker to make limited adjustments, like the moonlighter who works in a steel mill by day and runs his own gas station evenings and weekends.

Much of the unskilled worker's mobility is due to his marginal condition. Many workers are "frozen" into the unskilled ranks

because of illiteracy or discriminatory factors. Workers in this category have a high degree of mobility, but the job turnover itself prevents them from gaining the work experience necessary to build up a reservoir of skills. Negroes, who are among those last hired and the first fired, fall into this pattern. Women are also handicapped. They tend to enter the work force early, marry and leave to have children, and return too late to acquire any large measure of skill.

These groups may well remain frozen in the unskilled categories, shifting from industry to industry as they are displaced by automation. Manufacturers with high labor costs are introducing the most intense automation. Where we find unskilled or semiskilled workers earning premium pay, either because of union gains or because of dangerous and disagreeable conditions, we find automation making the greatest inroads. Foundry work and assembly line manufacture are cases in point.

The worst sufferers

The unskilled in the durable-goods industries were the worst sufferers in the last recession. A Detroit economist has estimated that even if the auto industry were to resume peak production, there would be some 200,000 few-

er workers in the industry. Most of the displaced will be unskilled or semiskilled workers.

When a similar displacement occurred in coal mining, the highly paid miners had difficulty in finding new jobs. But their wives found work easily in the garment shops that had begun to move away from New York City in search of cheap, easily trained labor for semiskilled jobs. This suggests a pattern that may become more common as more workers are displaced by automation. It explains why some areas of labor surplus concurrently suffer from shortages of highly skilled workers, technicians or professionals. Workers in the surplus labor category did not possess the skills necessary to enable them to fill new needs; yet they were too well paid to be satisfied with the lower pay offered by the apparel trades or the electronics industry. Women met that demand.

As more and more people leave school at a later age and with more training to enter the labor force, yesterday's semiskilled worker will find himself relegated to the status of an unskilled worker. The demand for these workers will depend on the state of automation and the development of tertiary industries. The unskilled, like cartoonist Bill Mauldin's infantrymen, will always be with us. ■



No. 12: the railways set the pattern for America's industrialization during the post-Civil War period

■ AT THE START of the Civil War, industrialism and the factory system had not yet affected the great majority of Americans. The country was still mainly agricultural and commercial except for certain parts of New England and the middle Atlantic states. The railroad was already important, and merchants played a crucial role in the large Eastern cities; but the "factory" was a workshop, the corporation an insignificant form of business ownership, and markets for nonagricultural goods were mainly local or regional, at best.

It was entirely different when the Spanish-American War began in 1898, for the country had passed through a crucial phase of industrial growth. National income rose from 2.38 billion dollars in 1860 to 19.36 billions in 1900. The nation, an industrial giant and a world power, had ac-

cumulated a rich store of fixed wealth and of capital improvements. It was a modern industrial society, with a national market, a factory system of manufacturing enterprise, and a corporate structure of ownership. Factory workers were far more numerous than skilled craftsmen. Those Americans who lived through the latter half of the 19th century had witnessed the transformation of their country.

Population and agricultural production trebled between 1850 and 1900; the value of the manufactured product increased twelvefold; and the amount of capital invested in manufacturing went up 19 times. By 1890, the value of manufactured goods finally exceeded that of agricultural goods. Ten years later, it was twice as great.

Manufacturing boomed in two major areas: the capital goods

industries and the processing of raw materials, agricultural products and minerals. The 63 million tons of coal that were mined in 1880 became 263 million in 1900. During the same two decades, the number of barrels of refined oil nearly trebled, the amount of copper mined rose from 30,000 to 303,000 tons, and the tonnage of iron and steel products went up from one million to no less than 29.5 million tons.

The new economy was dominated by the agricultural processing industries, mining enterprise, oil refining, and the manufacture of iron and steel products, foundry and machine shop equipment and agricultural implements. Consumer-goods industries, like commercial and residential construction and the manufacture of clothing, shoes, furniture and tobacco products, expanded greatly but were of secondary importance.

What explained the rapid industrialization? An unregulated, aggressive and exuberant spirit of private gain dominated and directed the entire process. The English experience served as model. Technological innovations made mechanization and large-scale production more and more feasible. The country itself was extraordi-

narily rich in raw materials and vital natural resources and had no internal trade barriers that could limit the growth of a national market. Finally, the population grew from 25 million in 1850 to just over 75 million in 1900, and no less than 14 million immigrants came to the United States between 1860 and 1900.

Without minimizing the importance of each of these contributions, we can attribute the *rapid growth* and *peculiar character* of industrial enterprise to four more powerful factors. The development of commercial agriculture will be discussed in a subsequent article. The others were the behavior of the government, the availability of foreign capital, and, most important of all, the railroad.

The years between 1843 and 1893 can be called "The Era of Railroad Capitalism." The railroad was more than the story of the great "moguls" like Leland Stanford, Tom Scott, Cornelius Vanderbilt, Jay Gould, Dan Drew and James Hill. These were gaudy figures in a colorful and fiercely competitive age, and their tactics have left a legacy of controversy. The railroad was more important than its makers, managers or manipulators. A significant innovation, it caused recurrent booms in railroad investment between 1843 and 1893 and thus stimulated

This is the twelfth article of a series in CHALLENGE which deals with the history and development of the United States economy.

other areas in the new economy, created new demand and swept national income upward.

In the 50 years before the Panic of 1893, the American railroad system became the largest in the world. Track mileage doubled between 1865 and 1873. In these years railroad investment rose from about one billion dollars to 3.7 billion. The next great spurt in railroad construction came in the 1880s and overshadowed the others, with 73,000 miles of new track. The rate of increase slowed in the 1890s, but by 1900 the United States had more miles of track laid than all of Europe—40 per cent of the track in the world.

Railroad investment stimulated other kinds of investments. The railroad was more than a mere transporter of goods; it was also a huge market itself. It accounted for 20 per cent of the nation's gross capital formation in the 1870s and 15 per cent in the 1880s. Demanding locomotives, cars, machinery, iron and steel, lumber and coal in great quantity, it stimulated other capital-goods industries. National income rose rapidly, while new jobs and in-

come trickled down to the expanding labor force and thereby stimulated the consumer-goods industries.

The expansion of the railway system induced an atmosphere that encouraged technological change. These innovations, in turn, created new demand and further growth in the capital-goods industries. The sleeping, dining and refrigerator cars, the air brake, standard gauge rail, coal-burning engine and the steel rail called for the creation of giant industries.

The steel industry is a good example. In 1879, three-fourths of the steel made in the United States was used for steel rails. Wooden railroad cars, typical in 1860, had a normal carrying capacity of seven or eight tons. By 1885, the steel car made it possible to carry 30 tons, and by 1900 between 40 and 50 tons. Profits were high in the steel industry—so high, in fact, that many steel manufacturers were able to finance their own expansion and large-scale operations without relying on too much outside capital.

Private entrepreneurs could not

Notice

SINCE THE February issue of CHALLENGE will be devoted exclusively to the theme, "the economics of our foreign policy," the thirteenth article in *The Permanent Frontier* series will not appear until the March issue, when we shall discuss the new role of agriculture after the Civil War.

finance the railroad system by themselves because of huge fixed costs. Often, especially in the underpopulated and still undeveloped regions, the railroad seemed too risky and unprofitable in the short run. The railroad builders, therefore, utilized the corporate form of business organization in a new and bold manner as a means of accumulating risk capital and investment funds.

Well-developed structure

The industrial firm did not call on outside capital as did the railroad. In 1867, the listing at the New York Stock Exchange had 63 rail firms and only 15 industrial stocks. After 1900, when industrial firms turned to the Stock Exchange, they found it a well-developed structure for their purposes.

A great deal of mismanagement and speculation marred the successes of the 19th century, but Eastern merchants and other businessmen bought stocks and loaned funds to those railroad projects that promised "quick" returns. However, the railroad was too expensive and the sources of private domestic capital too limited for this kind of financing. The railroad builders, therefore, turned to the government and to foreign investors for additional funds. They thus sustained the recurrent booms in railroad in-

vestment and underwrote the *rapid rate* of industrial expansion at that time.

Starting in the 1850s, English capital, in particular, as well as Dutch, German, Swiss and French funds bought into the American railroads. Foreign investment helped sustain the periodic booms in railroad construction. It also relieved the pressure on domestic sources of capital and thereby released funds for investment in other capital-goods and consumer industries.

Local, state and federal governments supplemented private sources of capital and aided the railroads in many other ways. Grants of public lands, the purchase of railroad bonds, first and second mortgage loans and outright cash gifts to the railroads helped ease the "hunger" for capital. The states gave the railroads a total of 167.8 million acres of public land. Local aid came to about 300 million dollars.

The federal government took a special interest in the transcontinental systems even though it also gave land to the states to distribute to regional railroad companies. Federal legislation passed between 1850 and 1871 gave the transcontinentals a right of way, free use of timber, earth and stone and sizable alternate sections of land for every mile of track constructed. The

government also extended second mortgage loans as each new mile of track was built. In the end, the transcontinentals received substantial financial aid from the government and more than 150 million acres of land—an area the size of New York, Pennsylvania and New England.

By the 1870s, most states had passed general incorporation laws that made it possible to raise sufficient quantities of capital for the new capital-goods industries. The national government, furthermore, built up a system of protective tariffs that supported the infant capital-goods industries against English competition. Finally, at all levels, the absence of serious government regulation provided an economic environment that encouraged the accumulation of capital goods and fixed wealth.

By 1893 the country no longer gave its major attention to farming and commerce. The machine became the instrument of competition. Entrepreneurs fought each other savagely as each new boom created new potential demands that they sought to satisfy. Soon,

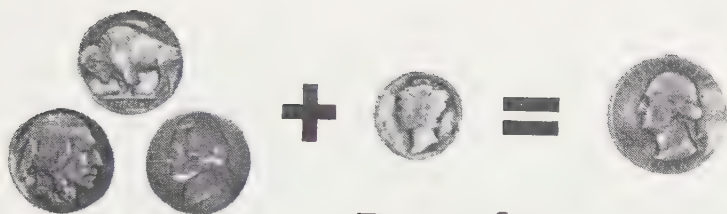
however, they “overbuilt” and the spurt in investment ended. National income no longer rose uninterruptedly and the modern business cycle made its appearance. Periods of prosperity were “regularly” followed by periods of economic depression; there were four such crises: between 1857 and 1862, between 1873 and 1879, between 1883 and 1885, and, finally, between 1893 and 1897. These periods of industrial depression were intensified by the inadequacy of the national banking system and the money supply.

In these times of economic crises, moreover, the new capital-goods industries, saddled with heavy fixed costs and huge debts, competed fiercely with each other. The inefficient and the scrupulous fell by the wayside. Those that survived each crisis searched for mechanisms of self-regulation and stability. They complained of the “excesses” of price competition. They reached out for the power that seemed inherent in the structure of private industrial enterprise itself. The remedies they sought are another chapter in the economic history of the U. S. ■

Answers to Challenge Quiz

(See page 79)

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 62</i>) | (7) False (<i>see page 29</i>) |
| (2) True (<i>see page 53</i>) | (8) True (<i>see page 18</i>) |
| (3) True (<i>see page 70</i>) | (9) False (<i>see page 24</i>) |
| (4) True (<i>see page 66</i>) | (10) False (<i>see page 31</i>) |
| (5) False (<i>see page 48</i>) | (11) True (<i>see page 8</i>) |
| (6) True (<i>see page 13</i>) | (12) False (<i>see page 37</i>) |



Everyday Economics

■ IMPORTANT changes in Social Security legislation become effective this month:

- Payments will be increased by approximately seven per cent. The increase is automatic—no application is necessary.

- The Social Security tax rate is raised to 2.5 per cent for employers and employees and to 3.75 per cent for the self-employed. Rates will increase again in 1960 when they will reach 4.5 per cent for employers and employees and 6.75 per cent for the self-employed.

- Earnings up to 4,800 dollars from the previous 4,200-dollar level now count toward Social Security benefits and are taxable.

- An adopted child can receive child's benefits immediately, instead of waiting three years.

- The disabled worker and his dependents are eligible for payments when the worker reaches the age of 50.

- Dependent parents now qualify for parents' benefits at retirement age, even though the deceased child is survived by a widow (or widower) or child.

Further information can be obtained from local Social Security offices.

Overseas opportunity



AMERICANS accepting employment in their company's overseas offices are offered a substantial tax break. The first 20,000 dollars of annual overseas compensation is exempt from U. S. income taxes. Income in excess of 20,000 dollars is taxable at regular rates. This covers salaries (except those paid by the U. S. government), commissions and professional fees. Foreign taxes can be credited against the employee's remaining U. S. tax bill. There are two ways to qualify for the 20,000-dollar exclusion:

- Prove foreign residence for at least one full tax year. Purchase of a home or presence of the taxpayer's family abroad is considered adequate proof.

- Furnish proof of having stayed in a foreign country for 510 full days during any period

of 18 consecutive months. Native-born American citizens can stay abroad indefinitely without impairing their U. S. citizenship; for naturalized citizens there is a general five-year rule.

Homeowners selling their U. S. residence and buying another overseas within a year pay no U. S. capital gains tax on the sale if the second house costs as much as the first. When returning to the U. S. the reverse also applies.

Easy does it



IF THE use of a special reclining chair was prescribed by a physician for, say, a person with heart trouble, the cost is tax deductible as a medical expense. But, warns the Internal Revenue Service, it must be shown that the "easy chair" was bought for no other purpose and it must not be used generally as furniture by other members of the family.

Dollars and scholars



GOVERNMENT loans to students begin this month. Applications should be made to colleges participating in the new program. The college itself will approve or reject the application and the student will have no dealings with the government. Any student enrolled in a

full-time college program is eligible for a loan if he can justify his need. He will receive up to 1,000 dollars a year and will have up to 10 years to repay the loan after leaving college. The three-per-cent interest rate does not run until the student leaves school. Preference will be given to students of "superior academic background," future teachers and to those who wish to study engineering, science, mathematics or a modern language.

Buying a car?



THIS IS the moment to purchase a 1959 car. Prices are lowest early in January when most customers are paying Christmas bills and preparing to meet the April tax deadline. Those prepared to buy now should find two- to four-per-cent discounts. In any case, buy before the end of March when spring brings a seasonal sales upturn. Purchasers who select the larger models will pay higher parking rates in many garages. In the New York area the raises are from 15 to 30 per cent for some of the 1959 cars. Garagemen justify rate hikes by the fact that increased width cuts the number of cars which can be parked between supporting pillars, and new complicated lights and trimmings are poor breakage risks.—S.T.



Human Potentialities. Gardner Murphy. 340 pp. New York: Basic Books. \$6.00.

• A psychologist ranges through experience and ideas seeking the future in the form of man. Murphy's wide sympathies open his book to a refreshing round of intellectual winds from all directions. His judgment is unfortunately too hospitable for precision, and his credos are too few to establish order among all the ideas. He can do no more than categorize the conflict between individuality and group action, for example, leaving untouched the problem of their mutual dangers. His distaste for competition, moreover, suggests a preference that human potentialities play it safe. His future humans can develop extraordinary capacities, but Murphy would put them in a world designed for comfortable mediocrity.

* * *

Titoism in Action. Fred Warner Neal. 275 pp. Berkeley: University of California Press. \$6.50.

• "All that glitters is not gold." Neal reports on the golden coin of decentralization in Yugoslavia but does not seem to have been permitted to sink his teeth into it far enough to see if it is real. Some of the Workers' Councils may have ex-

ercised their rights, but someone had to compromise when their best interests conflicted with those of the "withering" state. Neal's reluctance to tell us what is white and what is black indicates that the truth is hard to discern. He brought perhaps too much faith in human veracity to a Communist country, and his inclination to believe what he was told does not promise the most objective study. Would it have been bad manners to have asked: Are the Workers' Councils just another way of camouflaging the reality of dictatorship?

* * *

The Causes of World War Three. C. Wright Mills. 172 pp. New York: Simon and Schuster. \$3.50.

• This is an extremely silly book by an extremely able man. According to Mills, who teaches sociology at Columbia University, power elites in the U.S. and the Soviet Union are creating conditions which make World War III inevitable, even though such a war will destroy them as well as the rest of civilization. As author of an interesting analysis of the "power elite" in business, military and political life, Mills knows better. With a military man as President and a "business" Ad-

ministration in power, we have had much preoccupation with economy but very little costly belligerence. Prof. Mills is right about the danger of nuclear war; he is dead wrong in assuming an "elitist" conspiracy to wage such a war.

* * *

Arms and the State. Walter Millis with Harvey C. Mansfield and Harold Stein. 436 pp. New York: The Twentieth Century Fund. \$4.00.

•This important book examines the meaning of "civilian" and "military" in an age of hydrogen bombs and guided missiles. The authors find that the traditional separation of military and civilian roles in the formulation of U.S. policy has inevitably become somewhat blurred. Today, most major policy recommendations are made by "mixed" commissions of experts consisting of military officers, businessmen, civil servants and academic scientists. As a result, the civil and military elements have become so enmeshed in our society that neither represents a firm policy position. During the postwar era, uniformed officers have often been much more "pacifist" than civilians. On the whole, the authors believe this is a healthy trend. What worries them is that we have not yet created governmental institutions that make possible the kind of defense planning that we need.

* * *

The Story of an American Communist. John Gates. 221 pp. New York: Thomas Nelson. \$3.95.

•Having once decided that everybody except the Communists was wrong and then that Communists were wrong, former party members

wander through the mute distances of interhuman space as the loneliest men in the cosmos. Gates is a man of character and courage, but a major qualification for his job as *Daily Worker* editor was his mediocre intelligence. Unlike the Bourbons he prefers to forget some painful memories; but, more like them, he has learned almost nothing. If he has cast off some party dogmas, he still suffers from the Communist malady of thinking in terms of arbitrary assumptions and strained syllogisms. Thus he tries to salve his loss of faith in Stalin by belief in the democracy of "democratic centralism," Lenin's neat euphemism for dictatorship. Gates is an unimportant man but his symptoms are significant.

* * *

Globe and Hemisphere—Latin America's Place in the Postwar Foreign Relations of the United States. J. Fred Rippy. 276 pp. Chicago: Henry Regnery. \$6.00.

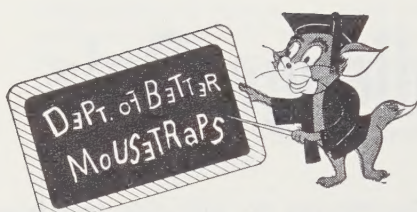
•Latin Americans, who received preferential treatment under our prewar foreign aid programs, complain that they are now suffering neglect. The author attempts to prove, with the support of an excessive number of statistics, that their complaints are largely unwarranted. With reassuring concern for both the Latin Americans and the American consumer, he advocates a revision of our trade policy toward our southern neighbors but neglects to suggest a comprehensive formula for revision. The conclusion that our foreign aid programs involve a great deal of waste and often tend to foster state socialism is valid, but the author might have sought some new solutions to an old problem. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is good. Answers on page 74.

- | | |
|--|--|
| <p>(1) Farm real estate prices have declined since 1950.
True ☐ False ☐</p> <p>(2) Business makes its highest profits when its behavior is most circumspect.
True ☐ False ☐</p> <p>(3) In 1867 the New York Stock Exchange listed only 15 industrial stocks.
True ☐ False ☐</p> <p>(4) Miners are considered skilled workers.
True ☐ False ☐</p> <p>(5) In 1948 the steel industry was required to reorganize permitting the entry of new producers and thereby reduce chances for monopolistic practices.
True ☐ False ☐</p> <p>(6) A mother's choice of a baby food is dictated by her personal taste preference.
True ☐ False ☐</p> | <p>(7) Karl Menger gives a precise definition of marginal utility.
True ☐ False ☐</p> <p>(8) American land resources exceed those of the Soviet Union.
True ☐ False ☐</p> <p>(9) Since the Great Depression the wage policy issue has been in the forefront of debates among economists.
True ☐ False ☐</p> <p>(10) The Supreme Court based its recent school segregation decision on the Ninth Amendment.
True ☐ False ☐</p> <p>(11) Gas was the most common illuminant in many homes at the outbreak of World War I.
True ☐ False ☐</p> <p>(12) Workers' Councils determine wage rates in Yugoslav factories.
True ☐ False ☐</p> |
|--|--|



Around the House: A light switch that can be turned on and off with light pressure on a flat plate—it eliminates fumbling at switches with bundle-laden arms . . . An adhesive-backed plastic holder that keeps electrical cords safely off the floor . . . A ceiling-mounted bathroom heater that resists corrosion . . . A paint guide attachment for brushes that helps amateurs with difficult trimming around windows, doors and baseboards . . . A refrigerator-type weatherseal that provides an airtight seal and reduces the noise of slamming doors.

* * *

Children's Corner: A chair for ages three to 10 that converts into a table or desk . . . A baby bottle cooler-warmer that refrigerates the bottle until feeding time, then heats it and rings a bell when ready . . . Roller skates that have neoprene tires to slip over the steel wheels for indoor skating.

* * *

Personal Business: A triangular transistor clock-radio that runs up to a year on a single flashlight battery . . . A tobacco pouch that automatically tamps tobacco into your pipe without spilling—even in a high gale . . . A slide-rule tie clasp in sterling silver that has scales A, C and D and really works . . . A sun-tan box for winter tanning that reflects and concentrates sun's rays and creates a pool of warmth.

Behind the Wheel: A map measurer which gives exact mileage, regulates to any scale map and does not confront the user with the problem of converting inches into miles . . . A burglar alarm for trucks that sounds a siren when the vehicle is tampered with or moved.

* * *

From the World of Industry: A bad-check checker for stores that photographs both the check and the customer's fingertips with a flick of the cashier's button . . . A payroll-tax computer that shows withholding tax and social security deduction on a simple chart . . . A chemical analyzer which records in a few minutes the composition of complex mixtures and indicates the quality of each component in the mixture . . . Foamed metal which can be made lighter than cork or balsa wood by regulating the amount of air trapped in bubbles . . . Waterproof, corrugated paper boxes for shipping produce that must be cooled with water or ice in transit . . . A powder for thickening, suspending, dispersing and emulsifying that is non-toxic and relatively unaffected by temperature and aging . . . A chemical adhesive, one drop of which will bind any two materials, even a pair of metal units weighing several hundred pounds apiece. It will also weld broken bones.

* * *

Kitchen Kuties: Wire shelves that slide in and out of kitchen cabinets and keep all items easily accessible . . . Dial-top freezer containers that indicate the month in which food was stored . . . A pie-crust bag that forms dough into a perfect crust.

* * *

Write to CHALLENGE magazine for additional information. ■